



Introduction: The Diffusion of Liberalization

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1 Introduction: the diffusion of liberalization

Beth Simmons, Frank Dobbin, and Geoffrey Garrett

The worldwide spread of economic and political liberalism was one of the defining features of the late twentieth century. Free-market oriented economic reforms – macroeconomic stabilization, liberalization of foreign economic policies, privatization, and deregulation – took root in many parts of the world. At more or less the same time, a “third wave” of democratization and liberal constitutionalism washed over much of the globe. Most economists believe the gains to developing countries from the liberalization of economic policies to be in the hundreds of billions of dollars. But they also acknowledge the instability and human insecurity sometimes left in liberalization’s wake.¹ Political scientists argue that the rise of democracy has contributed to the betterment of both human rights and international security.² While the precise effects of these twin waves of liberalization are still debated, it is hard to deny that they have had a tremendous impact on the contemporary world. This book examines the forces that help account for the spread of political and economic liberalization. Why has much of the world come to accept markets and democracy?

Some commentators focus on the exercise of American power. According to this line of argument, the hegemonic United States – often acting through the Bretton Woods international economic institutions it helped create after the Second World War – has used a combination of carrots (political and military support as well as preferential access to American markets) and sticks (from strings attached to financial assistance to threats of military coercion) to impose its vision for political and economic liberalism on the rest of the world. Others see the decentralized process of technologically-induced globalization at work. Sharp declines in the ability of governments to control cross-border movements of goods, services, and capital are thought to have forced countries to

¹ Dobson and Hufbauer 2001; Kaplinsky 2001; Prasad, Rogoff, Wei, and Kose 2003.

² Doyle 1986.

compete with each other for investment and market share by enacting political and economic reforms that reduce governmental constraints on finance and firms. Still another line of argument focuses more on the emergence of influential ideologies, from monetarism to glasnost to “rights talk,” that may have little to do with political power or market dynamics.

This book puts these processes under the analytic microscope. The wave-like structure of liberalization’s spread around the world suggests that these policy changes are hardly independent events. We are interested primarily in how a given country’s policy choices are affected by the prior choices of other countries, sometimes mediated by international organizations and private transnational actors. There is considerable variation in the spread of liberal policies across time and space, which the contributors to this volume exploit to explore the processes underpinning liberalization. Our principal objective is to shed light on the causal mechanisms that explain the timing and geographic reach of liberal innovations. What has caused these new policies to diffuse across time and space? Conversely, what factors put the brakes on such diffusion, and why are some countries willing to take an apparently independent course?

The contending approaches to liberalization we outline share the assumption that national policy choices are at least to some extent interdependent – that governments adopt new policies not in isolation but in response to what their counterparts in other countries are doing. In this introduction, we review four distinct mechanisms through which interdependent decision making may take place – coercion, competition, learning, and emulation. We begin by describing the patterns of liberalization that we seek to explain. We then move on to distinguish *interdependent* decision making by national governments from the null hypothesis of *independent* decision making, which has been for decades the workhorse approach in comparative and international political economy. We then elaborate the four classes of diffusion hypotheses found in the literature, which are subsequently tested alongside one another and developed in the other chapters in this book. We end by previewing the findings of the coming chapters.

The spread of economic and political liberalism

We define liberalism conventionally. Economic liberalism, in the classic rather than the American sense, refers to policies that reduce government constraints on economic behavior and thereby promote economic exchange: “marketization.” Political liberalism refers to policies that

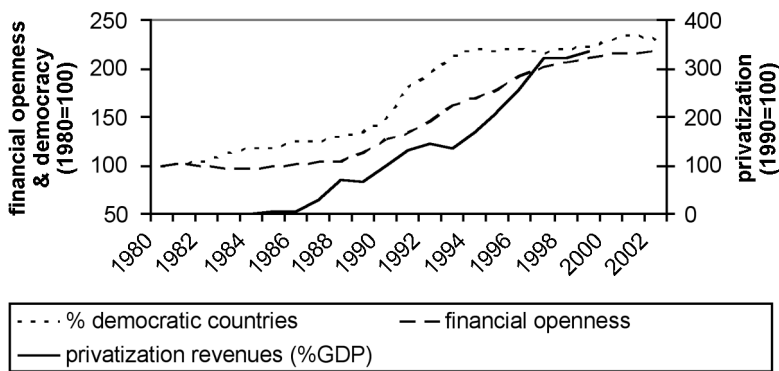


Figure 1.1 Political and economic liberalization around the world

reduce government constraints on political behavior, promote free political exchange, and establish rights to political participation: “democratization.”

There is no doubt that both forces have been powerful facets of the global political economy in recent decades. Figure 1.1 documents this trend on three key indicators of liberalization in the 1980s and 1990s. The privatization of state-owned enterprises went from an iconoclastic policy idea in Margaret Thatcher’s 1979 British election manifesto to a major element of economic policy in both developed and developing countries over the course of twenty years.³ At more or less the same time, there was a dramatic opening of national economies to external forces – exemplified by substantial reductions in policy restrictions on cross-border capital flows.⁴ But the scope of liberalization was not limited to economic policy. Perhaps the headline political statistic of the late twentieth century was that the proportion of democratic countries in the world more than doubled from under 30% in the early 1980s to almost 60% in the first years of the twenty-first century (while the number of sovereign states in the world also doubled to roughly 200).⁵

Moreover, all three curves in Figure 1.1 follow the classic S-shaped logistic curve associated with the diffusion of innovation, beginning with hesitant early moves to liberalize in only a few countries, followed by a rapid escalation in the trend, and finally a leveling off. In less than a

³ Brune, Garrett, and Kogut 2004. ⁴ Simmons and Elkins 2004.

⁵ Przeworski *et al.* 2000.

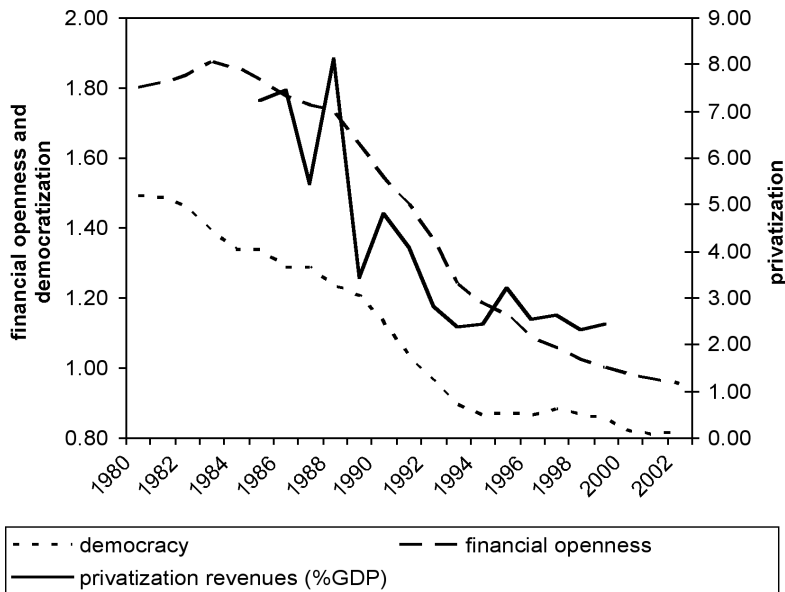


Figure 1.2 Variations in liberalization around the world (std. deviation/mean)

generation a new equilibrium level of much more liberalism appears to have been established in each realm.

Figure 1.2 demonstrates that in addition to this broad trend toward political and economic liberalism, there was considerable convergence in national trajectories.⁶ Cross-national variation, defined in terms of coefficients of variation (the standard deviation of each distribution divided by its mean) declined substantially in each of the three areas of privatization (representing domestic economic liberalization), capital account openness (external economic liberalization), and democracy (political liberalization).

It is important to note, however, that these broad global trends toward liberalism belie substantial variations in the paths pursued by countries in different parts of the world. Figures 1.3 to 1.5 break down the global averages presented in Figure 1.1 by geographic region. As students of democracy know well, there have been three waves of democratization in recent decades (see Figure 1.3). Latin American countries began to

⁶ For recent reviews of the “convergence” literature see Heichel, Pape, and Sommerer 2005; Knill 2005.

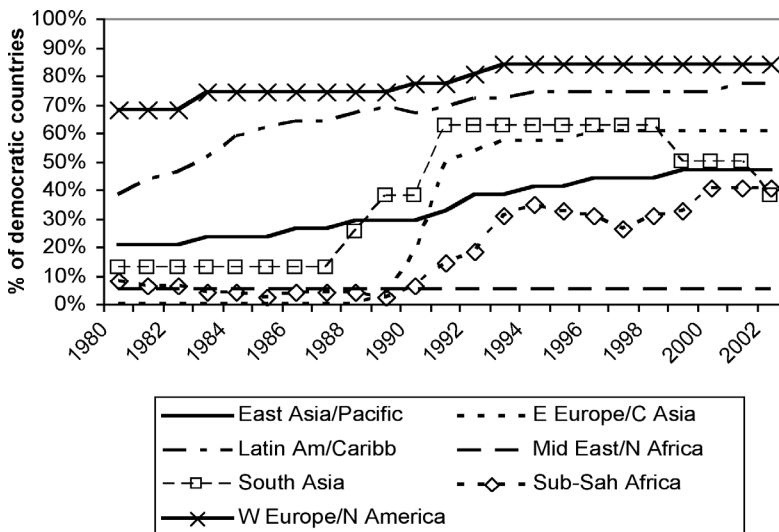


Figure 1.3 Regional variations in democracy

democratize in the 1970s, to the point where today the region is almost as democratic as North America and Western Europe. The same kind of pattern, though less pronounced, was apparent in East Asia and the Pacific. A second wave of democratization centered around the fall of the Berlin Wall and the subsequent velvet revolutions in the former Soviet bloc between 1989 and 1991 – but it should also be noted that the pace and extent of democratization was almost as great, and began just a few years earlier, in South Asia. The number of democracies in Sub-Saharan Africa also began to increase in 1989, though that region still lags behind Eastern Europe and Central Asia. Only the Middle East and North Africa saw no significant democratization in the 1980s and 1990s.

Figure 1.4 presents data on the openness of national economies to international financial flows with respect to: foreign direct investment (FDI); the buying and selling of stocks, bonds, and currencies across national borders; and international bank lending. The most dramatic feature of this figure is the rapid march among the countries of North America and Western Europe toward complete financial openness. The same general trend, though muted, obtained in Central Europe, East Asia, and Latin America. There were small moves toward capital mobility in Sub-Saharan Africa, but only in the mid and late 1990s. Financial policy remained relatively closed in the Middle East and in South Asia in the 1980s and 1990s.

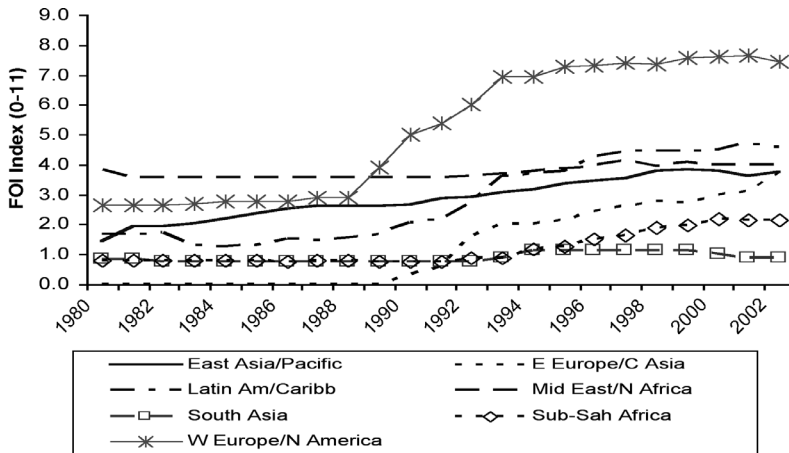


Figure 1.4 Regional variations in financial openness

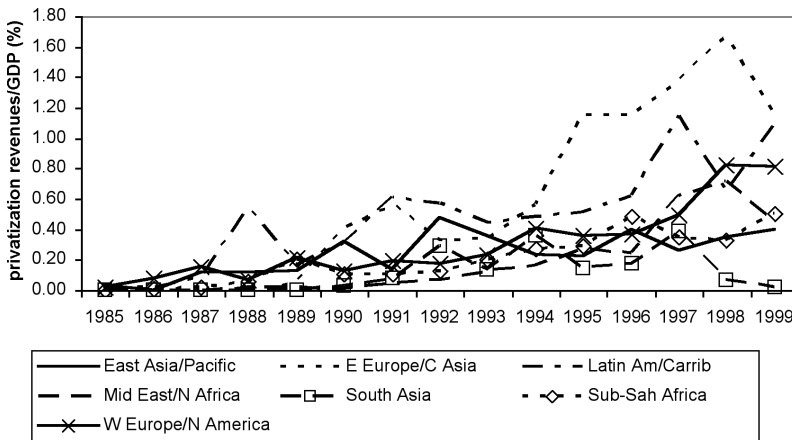


Figure 1.5 Regional variations in privatization

Finally, Figure 1.5 presents data on regional variations in privatization. Given that the data are measured in terms of the prices at which state-owned assets were sold (relative to GDP), it is not surprising that these curves are less smooth. Nonetheless, it is clear that privatization took off earlier and was more pronounced in Eastern Europe and Central Asia, Latin America and North America, and Western Europe than elsewhere. The radical and thoroughgoing nature of the velvet revolutions in the former Soviet countries is readily apparent in the case of privatization, no

doubt in large measure because these countries had the most state-owned assets to sell in the 1990s.

Figures 1.3 to 1.5 demonstrate that despite the global trend toward liberalism, there were important differences in the trajectories of different parts of the world – differences across regions, over time, and among different dimensions of liberalization. The Middle East and North Africa did not liberalize much, if at all, in the 1980s and 1990s. Latin America democratized and marketized gradually over the whole period, whereas the shift from state socialism to capitalist democracy was much more abrupt in Eastern Europe.

Clearly, some countries and even entire regions seem exempt from the general liberalizing trends. How do we understand these variations? Growing literatures in political science and sociology point to different dynamic explanations for such policy clustering, which we dub “diffusion.” Let us now define diffusion and distinguish it from alternative causal processes.

Policy diffusion – and its alternatives

International policy diffusion occurs when government policy decisions in a given country are systematically conditioned by prior policy choices made in other countries (sometimes mediated by the behavior of international organizations or private actors and organizations). Theories of diffusion have pointed to diverse mechanisms ranging from Bayesian learning to rational competition through hegemonic domination to unthinking emulation of leaders. Theories of diffusion encompass a wide array of assumptions about who the primary actors are, what motivates their behavior, the nature and extent of the information on which they base decisions, and their ultimate goals.

But what theorists of diffusion explicitly *reject* is the notion that processes of policy and political change can adequately be understood by conceiving of national governments as making decisions independently of each other. Policy independence is thus the null hypothesis that motivates our inquiry.⁷ Most cross-national social science research focuses on variants of this null hypothesis, developing explanations based on the specific conditions governments encounter. For example, differences in economic development,⁸ social cleavages,⁹ national institutions,¹⁰ and elite interactions¹¹ have all been argued to play important roles in democratization.

⁷ Compare for example Lenschow, Liefferink, and Veenman 2005.

⁸ Przeworski 2000. ⁹ Collier 1999. ¹⁰ Linz and Stepan 1996.

¹¹ O'Donnell, Schmitter, and Whitehead 1986.

Students of the spread of democracy, and of market institutions, frequently presume that decisions to democratize are made in isolation.

A small literature has developed that takes seriously the international diffusion of democracy,¹² but theoretical development and empirical testing are still at a very early stage. Perhaps more surprisingly, the political economy literature is also dominated by research that assumes independent policy choice across countries. Political economists have analyzed restrictions on cross-border capital flows as tools of economic repression¹³ or reasoned that such controls could be explained by partisanship, domestic cleavages, and governments' desires for seigniorage.¹⁴ Recent work on the choice of monetary and exchange rate institutions also focuses on the null hypothesis, as amply demonstrated by a recent special issue of *International Organization*, which focused on domestic political pressures,¹⁵ domestic veto players,¹⁶ federalism,¹⁷ coalition governments,¹⁸ and domestic policy transparency¹⁹ as determinants of national monetary institutions and policies.

In the past twenty years, an important strand of research in political economy has linked domestic policy choice with constraints, pressures, and opportunities generated by the international economy. Peter Gourevitch studied the impact of position in the international economy on domestic responses to economic crisis.²⁰ Ronald Rogowski analyzed trade policy coalitions in comparative advantage terms.²¹ Jeffry Frieden hypothesized that the preferences of domestic groups vis-à-vis financial liberalization and exchange rate policy were the function of their specific endowments.²² But these studies tend to reduce "external influences" to simple exogenous factors, notably changes in relative prices around the world.²³ None explicitly explores the possibility of interdependent decision making – the impact of policy choices in other countries on the behavior of governments at home.

Frieden and Rogowski posited the simplest possible argument to explain economic liberalization in recent decades. They contend that "exogenous easing," such as declining transport and communication costs, has greatly increased the opportunity costs of closure.²⁴ Over time, these costs have mounted on governments, increasing the incentive to open their economies. As Geoffrey Garrett and Peter Lange were quick

¹² See Huntington 1991; Markoff 1996; O'Loughlin, Ward, Lofdahl, Cohen, Brown, Reilly, Gleditsch, and Shin 1998; Starr 1991.

¹³ Giovannini and De Melo 1993.

¹⁴ Epstein and Schor 1992; Grilli and Milesi-Ferretti 1995; Quinn and Inclan 1997.

¹⁵ Clark 2002. ¹⁶ Keefer and Stasavage 2002. ¹⁷ Hallerberg 2002.

¹⁸ Bernhard and Leblang 2002. ¹⁹ Broz 2002. ²⁰ Gourevitch 1986.

²¹ Rogowski 1989. ²² Frieden 1991. ²³ Keohane and Milner 1996.

²⁴ Frieden and Rogowski 1996.

to note, however, the pace and extent of liberalization have varied substantially across countries.²⁵ Garrett and Lange argued that it was critical to take seriously this variation, rather than dismissing it as “noise”, as theorists of exogenous easing tended to do. They proposed a framework for analyzing how constellations of domestic interests and institutions mediate between lower costs of international movements and national policy liberalization. Their focus, however, was still squarely on domestic institutions, with no serious thought given to external policy influences.

Our intention is not to deny that relative prices and other factors exogenous to the decision-making environment in any one country affect policy choice. But from our perspective, the critical analytic point is that exogenous shocks – such as changing world prices – are a commonly experienced phenomenon to which governments must decide how to respond. Their responses are no doubt influenced in a “bottom-up” fashion by conditions and institutions within their own countries.²⁶ But they are surely also affected by the decisions and behavior of other countries. The challenge facing theorists of international policy diffusion is first to demonstrate that domestic political and economic factors cannot alone predict when governments adopt new policies, and then to develop and test hypotheses that distinguish among the several possible mechanisms of diffusion. We argue that government decision making in these critical areas has in fact been highly interdependent and that the mechanisms of diffusion can potentially be teased out in empirical analyses.

Mechanisms of global diffusion

There is an affinity between the recent “strategic turn” in the social sciences and attention to international policy diffusion.²⁷ But diffusion processes are characteristically uncoordinated²⁸ and cannot always easily be subsumed under the umbrella of fully informed, rational decision making. Indeed, diffusion is a much broader phenomenon whose study long predates the influence of game theory.

Anthropologists in the first half of the twentieth century “laid primary stress on diffusion, that is, the process of adopting or borrowing by one culture from another various devices, implements, institutions, and beliefs.”²⁹ More recently, sociologists have argued that nations mimic

²⁵ Garrett and Lange 1995.

²⁶ See for example Gilardi’s study of the diffusion of independent regulatory agencies; Gilardi 2005.

²⁷ Lake and Powell 1999. ²⁸ Elkins and Simmons 2005. ²⁹ Malinowski 1944: iii. 17.

their successful peers almost ritualistically.³⁰ Economists debate whether there is a rational/material base to international financial crises, or whether they result from “contagious” herd behavior.³¹ Political scientists have incorporated the diffusion of ideas into their accounts of the choice of economic policies.³² Students of organizational behavior model international networks among people and firms that are said to drive the diffusion of technology and management practices.³³

But which of these processes is the most important, and under what circumstances does each operate? How can we distinguish among them, both theoretically and empirically? This introduction distinguishes among four causal mechanisms of international diffusion: *coercion*, *competition*, *learning*, and *emulation*. In practice, of course, the diffusion mechanisms we discuss are sometimes commingled and the lines between them are not always sharp. Nonetheless, we believe that clearly staking out the theoretical terrain is a precondition to social scientific progress on a critical dynamic in world politics that is all too often shrouded in imprecise thinking by scholars who talk past each other while preaching to the converted.

Coercion

One prominent explanation for the spread of economic and political liberalism involves a distinctly anti-liberal mechanism: coercive power. It can be exercised by a range of actors: governments, international organizations, and even non-governmental actors.³⁴ Coercion can be applied in various ways from the subtle to the overt: through the threat or use of physical force,³⁵ the manipulation of economic costs and benefits, and even through the monopolization of information or expertise. The underlying logic of coercion thus involves power asymmetries that strong actors exploit to impose their preferences for policy change on the weak. Coercion theorists suggest that policies diffuse from the “center” both actively through “conditionality” and passively through “unilateralism” by more powerful actors.³⁶ Essentially coercion involves the (usually

³⁰ Thomas, Meyer, Ramirez, and Boli 1987. ³¹ Kaminsky and Reinhart 2000.

³² Hall 1989; McNamara 1998.

³³ Goolsbee and Klenow 1999; Keller 2002; Powell 1990.

³⁴ Private banks, for example, in IMF conditionality. See Edwards 1997; Gould 2003.

³⁵ We would expect physical coercion to be rare in the diffusion of economic policy in the latter half of the twentieth century, but it has been used repeatedly historically and contemporaneously by powerful countries to influence domestic institutions in weaker countries. See Owen 2002.

³⁶ Essentially hierarchical in nature, coercion is a form of “vertical diffusion” discussed in much of the literature on federalism and European regionalism. See for example Daley and Garand 2005; Gilardi 2005.

conscious) manipulation of incentives by powerful actors to encourage others to implement policy change.

The diffusion of economic liberalization is thought by many to be the outcome largely of coercive pressures. The primary agents are power governments or the intergovernmental organizations they dominate. Using a strategy of conditionality, these actors link policy reform to political membership (e.g. in the European Union) or to economic resources (e.g. from the International Monetary Fund (IMF)) in a demonstrable quid-pro-quo fashion.³⁷ The logic is straightforward. Developing countries need financial assistance from the strong either to ward off crises or to make infrastructural investments that are hard to fund through private markets.³⁸ Lenders, however, then condition their financial support on domestic economic reforms they deem desirable – macroeconomic stabilization, free trade and cross-border capital movements, privatization and deregulation (“The Washington Consensus”).³⁹

Why should powerful actors care about the economic policies of other countries? Economists have provided a range of motives for conditionality: discouraging moral hazard problems that can lead to system-wide financial instability,⁴⁰ encouraging the repayment of sovereign debt,⁴¹ and (to come full circle) protecting lenders’ investments.⁴² On the other side of the bargaining table, those who borrow from the IMF or World Bank, like those who line up to join the European Union⁴³ or to receive various forms of bilateral aid,⁴⁴ have little choice but to accept neoliberal economic policy prescriptions.

Can conditionality plausibly account for the spread of economic liberalization over the past few decades? Economists have noted that IMF conditionality suffers to the extent that it cannot be credibly

³⁷ See, for example, on the World Bank, Mosley, Harrigan, and Toye 1995.

³⁸ James Vreeland argues that the countries that go under IMF programs do so not only because of economic need, but also because they have the political will to undertake the kinds of reforms they know the IMF will impose on them; Vreeland 2003.

³⁹ Williamson 1993. For more recent reflections by Williamson on these policy recommendations see Williamson 1997, 2000.

⁴⁰ Guitian 1995; Mishkin 1999.

⁴¹ Babai 1988; Fafchamps 1996; Hopkins, Powell, Roy, and Gilbert 1997.

⁴² Guitian 1995; Khan and Sharma 2001.

⁴³ Schimmelfennig, Engert, and Knobel 2003.

⁴⁴ Some research even suggests that aid conditionality itself has diffused among potential donors, as minor donors have increasingly converged on the aid practices of major countries. Rob Kevlihan argues for example that Ireland’s aid policies have moved beyond “first generation” economic policy conditionality and have converged toward the “second generation” political conditionality of the rest of Western Europe; Kevlihan 2001.

enforced.⁴⁵ A raft of studies has exposed non-compliance with IMF programs, implying that even the most stringent formal conditionality may not lead to the anticipated policy results – either because it is hard to monitor what the recipients of conditional assistance are actually doing⁴⁶ or because recipients lack the institutional capacity to effect policy change.⁴⁷ These problems may explain why the World Bank in particular has recently talked more about program “ownership” than conditionality.⁴⁸ Some even question the characterization of conditionality as coercive. James Vreeland argues that governments often accept IMF loans because they *want* “conditions” externally imposed on them, rather than the other way around.⁴⁹ In a similar vein, Alan Drazen argues that conditions encourage policies that are in a country’s “self-interest” when the government faces “heterogeneous preferences” (political opposition) domestically.⁵⁰

The debate about formal conditionality only applies to developing countries that receive support from the international financial institutions (IFIs). There is, however, a less formal face to conditionality that may be associated with the influence of powerful actors through bilateral aid and treaties or in organizations such as the World Trade Organization, the European Union, and the North American Free Trade Alliance – and with the demands that participation imposes on weaker members. In these cases, there is often no explicit quid pro quo. Rather, weaker parties simply expect that they will receive some benefits by making the policy change favored by the more powerful actor. In the cases of the EU and NAFTA, membership has its privileges, but also its costs in terms of policy latitude.

Implicit pressures for policy conformity with the preferences of the strong seem very common in international relations. Bilateral aid is often tied to policy liberalization.⁵¹ Developing countries negotiating with the United States over the extension of various free trade areas (bilateral, regional, and multilateral) feel pressure to liberalize their telecommunications, insurance, and financial sectors.⁵² Potential recipients

⁴⁵ Eichengreen and Ruehl 2000; Sachs, Huizinga and Shoven 1987. A similar credibility problem applies to poverty-reduction programs. Donors that sincerely want to reduce poverty have a hard time tying such aid to political or economic reforms. See Svensson 2000. Several studies reveal how unsuccessful conditionality has been at securing broader goals, such as political liberalization, in developing countries. See Santiso 2003.

⁴⁶ Cordella and Dell’Ariccia 2002. ⁴⁷ Martinez-Vazquez *et al.* 2001.

⁴⁸ This is more true of the World Bank than of the IMF, however. See Nelson 1996.

⁴⁹ Vreeland 2003. ⁵⁰ Drazen 2002. ⁵¹ McPherson 1987.

⁵² A clear example is that of the recent negotiations between the United States and five Central American countries for a Central American Free Trade Agreement with the United States; see the *Financial Times* of London, December 17, 2003, THE AMERICAS, page 2.

of US foreign direct investment find themselves pressured to liberalize their capital accounts.⁵³ Similarly, historical research suggests the French have actively campaigned for capital account openness.⁵⁴ More overtly, the European Union's negotiations with Latin American countries over free trade contained a contentious "democracy clause," the explicit purpose of which was to bolster political as well as economic reforms in Latin America (just as potential EU members must undertake democratic reforms before their admission to the club).⁵⁵ The European Commission and the United States have demanded sweeping privatization programs of developing countries as the price for further agricultural liberalization in the context of WTO discussions.⁵⁶ In a range of policy arenas, powerful external actors have become actively involved in domestic political processes with an eye to altering policy or institutional outcomes.⁵⁷

In empirical investigations of conditionality, it is important to be precise about exactly how the outcome under investigation is linked to power asymmetries. At a minimum, it is necessary to identify the coercive actors, to show that they promote the policy in question, and to show evidence of formal conditionality or, in the case of informal conditionality, of especially noteworthy "persuasive opportunities" when policy liberalization was on the negotiating table. If the International Monetary Fund is the hypothesized source of dominant influence, for example, empirical tests should demonstrate that: (1) the IMF includes the specific policy change as part of its performance expectations during the period in question; and (2) the country in question made use of IMF resources, thus placing it under Fund conditionality. Similarly, studies linking policy diffusion to particular dominant actors will be persuasive to the extent that they can show that: (1) particular actors favor particular policy changes;⁵⁸ and

⁵³ Singapore is a recent and important case in point. *The Straits Times* (Singapore), November 22, 2002.

⁵⁴ Abdelal 2006.

⁵⁵ See for example Sanahuja 2000. Emilie Hafner-Burton's research on human rights conditionality links improvements in rights practices to highly conditioned preferential trade arrangements, which tie rights improvements directly to market benefits. See Hafner-Burton 2005.

⁵⁶ Katharine Ainger, "Comment & Analysis: A privatisers' hit list: European commission demands to deregulate services spell disaster for the developing world," *The Guardian* (London), April 18, 2002.

⁵⁷ See for example Siegel and Weinberg 1977.

⁵⁸ It may be, for example, that the United States encourages particular governments to hold democratic elections when US security interests are served. It is less likely that the US pressures governments to sign human rights treaties, since the US itself has not signed these accords and regularly argues that this in no way undermines its commitment to human rights.

(2) those actors have plausible leverage over the target countries. To demonstrate conditionality, studies should show that countries subject to leverage (trade, aid, or security dependence) are more likely, *ceteris paribus*, to adopt reforms promoted by powerful actors. It may also be possible to show that the *timing* of liberalization is influenced by moments of vulnerability: preceding or during a multilateral trade round of negotiations, during periods of “candidacy” for admission to clubs such as the EU or the WTO, during periods in which bilateral trade agreements are being negotiated with the US or the EU, or in anticipation of the disbursement of a loan tranche from the IMF.

Conditionality is hardly the only way coercion can be applied. As Lloyd Gruber has argued, the powerful may influence the weak even if the former do not tie benefits to the behavior of the latter. He dubs this “go-it-alone-power”: the ability to unilaterally influence a government’s policy choice by altering the nature of the “status quo” it faces. For instance, the United States’ decision to liberalize trade with Canada had a profound effect on Mexico’s own economic liberalization program.⁵⁹ Mexican leaders would have preferred, Gruber argues, to liberalize at a more leisurely pace, but the US–Canadian agreement created conditions that could have diverted trade and investment to the north – leaving Mexico worse off than the pre-agreement status quo. Go-it-alone power amounts to a fairly passive yet profound form of coercion among asymmetric players, in which the powerful government need not worry about enforcement and the credibility of threats.

Coercion of a sort may also be exercised by a country that seizes the policy initiative. A potential monopolist’s decision about how much to produce affects whether other potential producers will enter the market, and if so, how much they will produce. “Stackelberg leaders” thus enjoy “first mover” advantages that shape the choice set of other governments. Unilateral action could also be “coercive” by virtue of its power as a focal point with the ability to solve coordination problems characterized by multiple equilibria.⁶⁰ Where nations need to coordinate their policies, participants may follow the behavior of a powerful nation simply in virtue of its salience, as Geoffrey Garrett and Barry Weingast argue has often been the case with respect to the influence of German rules and practices

⁵⁹ Gruber 2000.

⁶⁰ Schelling 1960. In this section, we discuss the role of dominant powers in solving coordination problems among countries. We will discuss a looser definition of focal points below when we analyze the mechanisms underlying social emulation.

in the process of European integration.⁶¹ The salience of German institutions as a model for Europe has probably played an important role in the development of these supranational innovations, even though few would argue that Germany has overtly sought to “coerce” Europe to follow its lead.

Can the coordinating power of liberal focal points account for the diffusion of markets and democracy? Quite clearly, if there is in fact no coordination problem to be solved, this model of diffusion misses the mark. The appropriateness of this approach will depend on the strategic structure of the specific issue area at stake.⁶² Moreover, the policies of powerful countries are only one possible source of focal points; other social conventions, such as precedents, may prove equally influential.⁶³ Furthermore, experimental evidence suggests that the coordinating power of a dominant leader weakens when trust in the dominant actor erodes,⁶⁴ suggesting that the diffusion effects of coercive coordination could be self-limiting. Even the first move of a Stackleberg leader committed to liberalization, Pahre shows, may under some circumstances *undermine* the willingness of others to liberalize.⁶⁵ The conditions under which coercive coordination can account for diffusion of liberalization must be very carefully specified.

Finally social constructivists analyze “hegemonic ideas” that involve more subjective forms of power than traditional coercion or focal unilateralism. Hegemony in the Gramscian sense refers to the “control of social life by a group or a class through cultural as opposed to physical means.”⁶⁶ Without exerting physical power or materially altering costs or benefits, dominant actors can have their influence felt through ideational channels. The thrust of this approach is that dominant ideas are rationalized, often with elegant theoretical justifications, and become part of the discourse influencing how policymakers conceptualize their problems and order potential solutions. Albert Hirschman, for example, argued that global Keynesianism owed much to the hegemonic position of the United States.⁶⁷

⁶¹ Garrett and Weingast 1993. For example, the European Central Bank looks very similar to the dominant pre-Euro European central bank, the German Bundesbank. The European Union’s political system – an “upper house,” the Council of Ministers, directly representing the governments of states, and a “lower house,” the European Parliament, representing the citizens of all member state – is very similar to Germany’s Bundesrat and Bundestag; Tsebelis and Garrett 2001.

⁶² For example, even though standard setting is often considered a class coordination game, Beth Simmons has argued that while accounting standards may primarily be a coordination problem, establishing rules to regulate money laundering is not; Simmons 2001.

⁶³ Crawford and Haller 1990. ⁶⁴ Wilson and Rhodes 1997. ⁶⁵ Pahre 1999.

⁶⁶ Femia 1983. ⁶⁷ Hirschman 1989. See also Haas 1980.

But how do hegemonic ideas emerge and become politically ascendant? Most scholars believe that the fact they are endorsed by a powerful actor is not enough. For example, the roles of epistemic communities or policy entrepreneurs with the expertise to articulate and disseminate theories and policy prescriptions are often highlighted.⁶⁸ Sociologists use the phrase “normative” isomorphism to describe the process whereby professional groups theorize new policies and actively seek to sell them to corporations or nation-states.⁶⁹ Nonetheless, it is likely that because powerful countries have the research infrastructure, the critical intellectual mass, and well-developed connections between the policy world and various research nodes, they are likely to be influential, perhaps unduly, in the framing of policy discussions.⁷⁰

To be useful as an explanation for policy diffusion, theories of hegemonic ideas must indicate plausible mechanisms for their transmission. Economists (typically those trained in the United States or a handful of Western European countries) are often viewed as the most important actors in the diffusion of liberal economic reforms around the world – independently of the power they may exercise through the conditionality of international financial institutions.⁷¹ Sebastian Edwards has argued that the evidentiary contributions of the World Bank have altered the terms of the intellectual debate over economic policy.⁷² Practically every international financial institution – from the Bank for International Settlements to the International Monetary Fund to the various regional development banks – has a research department engaged in the dissemination of economic models favored by economists in wealthy, core countries.⁷³ But the influence of economists’ ideas does not require the support of international institutions. Western (especially US) economists have a long history of providing advice as consultants to various governments around the world, based on theories developed in their home institutions. Their impact seems nowhere more evident than in Latin America,⁷⁴

⁶⁸ For a general discussion of the role that epistemic communities play in formulating theories and articulating solutions that eventually influence policy see Haas 1992. For a test of the proposition that policy entrepreneurs have a significant impact on the probability that a particular policy innovation (in this case school reform) will get on the political agenda and be approved see Mintrom 1997; Mintrom and Vergari 1998.

⁶⁹ DiMaggio and Powell 1983, 1991.

⁷⁰ Hira 1998. For a highly critical view of how economic theory gains policy adherents, see Krugman 1995.

⁷¹ Kogut and McPherson 2005. ⁷² Edwards 1997: 47.

⁷³ On the importance of economists working in the IMF and the World Bank for the spread of economic ideas internationally see also de Vries 1997; Polak 1997.

⁷⁴ Drake 1994; Montecinos 1997; Murillo 2002. Harberger 1997 discusses his involvement in economic reform in Latin America over several decades.

although the independent causal influence of US economists' influence in developing regions is difficult to sort out empirically.⁷⁵ (Because "hegemonic ideas" may be better classified with processes of social construction and emulation than with diffusion by coercion, we revisit these issues at greater length below.)

On the whole coercion models highlight the role of powerful actors in the diffusion of policy. They typically emphasize some combination of policy conditionality, political and economic power, and focal points – and these are often mutually reinforcing.⁷⁶ What unites this perspective is the necessary influence of an external source of pressure or ideas. Observers may differ in their assessment of the extent to which dominant actors actively, even aggressively, seek to influence policies elsewhere. One should also not dismiss the complementarity of interests (or indeed the complicity) of policy adopters around the world. But the notion of differences in power – and hence the asymmetrical flow of influence – is what distinguishes this approach from other perspectives on diffusion that tend to be less hierarchical and more decentralized.

Competition

Competition among governments for capital and market share for their domestic goods and services offers a far more decentralized explanation for the diffusion of liberal economic policies than power, hierarchy, and coercion. According to this perspective, governments have strong incentives to choose "market friendly" policies that make their jurisdiction an attractive place for global investment, and to remain competitive in product markets by minimizing costs. The central insight of those who espouse competitive models of liberal policy diffusion is that incentives to liberalize increase after key competitors open their markets. Simplifying regulatory requirements, ameliorating investment risks, and reducing tax burdens are often viewed as policy choices that can, quite quickly, make an investment locale more attractive and an economy more efficient and competitive, at least on the margins. Competition arguments are typically applied to economic policies, though there is some evidence that investors and even buyers in the global marketplace have preferences for certain political systems, sometimes for liberal democracy and sometimes for benevolent authoritarianism.⁷⁷ Thus a competitive dynamic is plausibly at work with respect to both market and political genres of liberalization.

⁷⁵ But See Kogut and Mcpherson's effort, this volume.

⁷⁶ See for example the discussion in Ikenberry 1990. ⁷⁷ Jensen 2003; Meyer 1998.

Competitive models of liberalization tend to assume that governments compete with each other for a fixed quantity of trade or investment, but that they would choose – were they left to their own wishes – to retain more extensive interventions in their economies for social or political purposes. Governments know who their competitors are, and are able to connect policy choices to competitive advantages. Liberalization may effectively increase global business activity as international transactions costs are reduced, but the central concern of policymakers is the potential redistributive nature of policies taken elsewhere. Certainly, there are policies that could make one's own jurisdiction attractive in the long term (better infrastructure, a more educated workforce), but these are not likely to influence investors' or traders' decisions in the short to medium term. Thus, competitive models focus on the strategic interdependence of relatively short-term policy responses, such as capital account liberalization, tax breaks, and labor rights.⁷⁸ Liberalization by a competitor is understood as an unwanted disturbance to a level of protection, taxation, or regulation that might have been preferred on domestic grounds alone.

That jurisdictions compete in their formulation of economic policies is hardly a new insight. This dynamic has been documented extensively at the subnational level. In the United States, for example, states engage in fierce competition to attract investment through the use of specific economic incentives.⁷⁹ The spread of competitive innovations ranging from welfare policies to lotteries has also been documented on the subnational level.⁸⁰ Competitive models are also increasingly employed in studies of regional integration and convergence, for example in the context of the European Union.⁸¹

Diffusion by competition explicitly or implicitly underlies much current thinking about policy adoption in the context of growing global economic integration. The argument is a mainstay of studies of globalization's effect on environmental protection. The expense of complying with environmental regulations has fueled a debate over whether, and to what extent, increasingly mobile firms' exit threats can reduce environmental regulations in wealthy jurisdictions and account for the "dumping" of dirty production activities in developing countries and emerging markets with lax regulations.⁸² Some studies

⁷⁸ See Rodrik 1997; Mosley and Uno 2007; Simmons and Elkins 2004.

⁷⁹ Gray 1994. See also Cai and Treisman 2004.

⁸⁰ Berry and Berry 1990; Brueckner 2000; Peterson and Rom 1990.

⁸¹ See for example Sinn and Ochel 2003.

⁸² See for example Porter 1999; Tanguay 2001. However, for a study that finds no link between environmental pollution and various forms of globalization, see Wheeler 2001. In the popular literature, see Korten 1995.

on environmental protection show that regulatory races to the bottom can be intensified as the number of competing jurisdictions and exit options increase.⁸³

The presumed effects of global competition for capital and trade have also fueled the debate over the future of the “Keynesian welfare state” since the early 1990s.⁸⁴ Studies in the 1970s and 1980s emphasized the incentives and ability governments had to buffer local economic actors from the vicissitudes of the global market through various forms of social protection and government spending.⁸⁵ After a generation of effective Keynesian management of the economy,⁸⁶ many believe, governments have now lost the ability to steer independent courses in the global economy. Business demands less, not more, government interference with market forces. In marked contrast with the post Second World War period of Keynesianism and state expansion, scholars describe a competitive dynamic in which maintaining the domestic social bargain forged two generations ago is increasingly hard to do.⁸⁷

Competition sparked by increasing market integration has spawned research on the empirical manifestations purportedly associated with such competition. The “convergence” literature developed in the 1990s to test the hypothesis that governments increasingly were constrained by capital mobility and the internationalization of production from pursuing independent fiscal, wage, and social policies. In the area of taxation, the convergence literature predicted a shift in the incidence of taxation from the more to the less internationally mobile factors of production.⁸⁸ Dani Rodrik purported to show that capital mobility was indeed associated with lower taxation of capital,⁸⁹ although subsequent studies questioned this finding.⁹⁰

⁸³ Kuncze and Shogren 2002; Massey 1999.

⁸⁴ For early statements of the argument see Helleiner 1994; Kurzer 1993; Pfaller, Gough, and Therborn 1991; Pierson 1991.

⁸⁵ Cameron 1978; Katzenstein 1985; Ruggie 1982. For more recent support see also Hicks and Swank 1992; Swank 1992. Huber, Ragin, and Stephens 1993. Rodrik has proposed that the positive trade–spending relationship hold for the rest of the world; Rodrik 1998.

⁸⁶ The seminal study of this period remains Shonfield 1965.

⁸⁷ See the essays in Kitschelt *et al.* 1999; Scharpf 1991; Schwartz 1994; Schwartz 1998.

⁸⁸ For a good review of the literature on tax harmonization see Oates 2001.

⁸⁹ Rodrik 1997. See also Genschel 2002.

⁹⁰ See for example Garrett and Mitchell 2001; Holzinger and Knill 2005; Swank 1992; Swank 1998. Duane Swank and Sven Steinmo tried to reconcile the mixed results in the literature, arguing that while marginal capital tax rates in the OECD have declined considerably since the mid 1980s in the face of increasing international financial integration, the base of capital taxation has been sufficiently broadened (by reducing depreciation allowances and other tax credits) that the overall tax take – and hence the ability of governments to fund spending by taxing capital – has been largely unaffected. Swank and Steinmo 2002. Richard Baldwin and Paul Krugman have recently argued against the

Competition for mobile capital and export markets has been hypothesized by some to be causally connected with downward pressures on government spending, social programs, and the overall size of the government sector. The causal mechanism in these studies relates to market pressures to reduce regulatory and social programs that raise the costs associated with investment, and the need to keep production costs competitive. Several studies have focused on competitive effects on government spending, but few clear results emerge. Geoffrey Garrett has found a global tendency for countries experiencing rapid trade integration to reduce government spending growth, though curiously capital mobility had no such effects.⁹¹ Indeed, in the first systematic study of the correlates of capital mobility, Dennis Quinn found government spending to be higher in OECD countries that were more open to cross-border capital movements.⁹² More evident have been the constraining effects of global markets on government programs in developing countries. Studies that have focused on the developing world have tended to argue that globalization has limited welfare states.⁹³ Perhaps this is due, as Layna Mosley suggests, to the much greater scrutiny international investors apply to the spending patterns of developing countries compared to the industrialized democracies.⁹⁴

Competition has also been implicated in a number of institutional changes. Comparative legal scholars have discovered the effects competitive pressures may have on legal models, institutions, and practices. Governments are thought to compete in the global economy by moving their legal systems toward the American model. Pressure for openness and transparency, which American legal norms are thought to exemplify, underlie this analysis.⁹⁵

Two critical points must be noted about the vast academic literature that has emerged to test the purported effects of heightened competition associated with more integrated global markets. First, most of this literature assumes competitive dynamics drive countries toward a market-friendly form of convergence, but this assumption is usually not tested directly. "Openness" is often viewed as sufficient to account for competitive pro-market outcomes.⁹⁶ As we will discuss in greater detail below, a more precise test of the competition hypothesis would involve linking liberalization in country A to the policies of A's *competitors* in the world

proposition that competition leads to convergence on tax policy, by pointing to the rents governments are able to collect under conditions of industrial agglomeration within their jurisdictions; Baldwin and Krugman 2004.

⁹¹ Garrett 1998; Garrett and Mitchell 2001. ⁹² Quinn 1997.

⁹³ Kaufman and Segura-Ubiergo 2001; Rudra 2002. ⁹⁴ Mosley 2003.

⁹⁵ Kelemen and Sibbitt 2004; Twining 2004.

⁹⁶ See for example Newmayer and de Soysa's test of liberalization's effect on labor standards and practices; Neumayer and de Soysa 2006.

economy. There is no particular reason to believe that A's level of exposure to world markets per se would result in policy liberalization, especially if few other countries with whom A competes have themselves liberalized. There is a marked disjuncture between the theory of the race to the bottom – in which liberalization by one government forces another to liberalize – and empirical tests – where the “openness” of a country's markets to the international economy is modeled as the stimulus for liberalization. More precise specifications of the sources of competitive pressures may help overcome the inconsistent empirical results typical of the globalization research program.⁹⁷

It should also be noted that there is an important theoretical alternative to competitive convergence: competitive *divergence* based on the Tiebout model of the provision of local public goods.⁹⁸ The Tiebout model illustrates how under fiscal federalism residents can vote with their feet and migrate to jurisdictions with the level and type of local public goods provision that they prefer. The result is that all localities do not provide the same services to their residents; rather, local governments specialize – and people relocate to find the jurisdictions that fit their preferences (e.g. low taxes versus good schools).⁹⁹ Of course, as traditionally applied, Tiebout models assume readily available “exit” options, and thus assume a high degree of human mobility between jurisdictions. Whether such mobility can account for significant heterogeneity of preferences among countries and homogeneity within them is not at all obvious.¹⁰⁰ More realistically, perhaps, Ronald Rogowski uses a Tiebout-like model in which capital moves to friendly jurisdictions, while labor does not. Such sorting, he argues, reinforces liberalization in jurisdictions to which capital is initially attracted but, crucially, reinforces market intervention and closure in the jurisdictions from which capital has fled.¹⁰¹ The result is that globalization simply reinforces existing *differences* in policy regimes among countries, all else being equal.

⁹⁷ See for example the results from specifications of competitive networks in Simmons and Elkins 2004.

⁹⁸ Tiebout 1962.

⁹⁹ For a critical review of Tiebout models to governmental entities, see Donahue 1997.

¹⁰⁰ Alberto Alesina and his colleagues, however, have applied Tiebout logic internationally, arguing that with the increased mobility of people as well as capital, states are becoming both smaller and more homogeneous – as people no longer have to accept government policies that they do not support. See Alesina and Spolaore 2003. See also Bolton and Roland for an application to regional autonomy and irredentist movements; Bolton and Roland 1997.

¹⁰¹ Rogowski 2003.

Governments in a Tiebout framework are far more passive than those postulated in the competitive model we have in mind. They tend to reflect political demands, and respond to changes in the domestic polity as these evolve through the sorting process. It is equally (perhaps more) plausible that the policy choices of other governments are anticipated to affect payoffs in the home jurisdictions, creating strong incentives to match them without waiting passively for sorting to take place. Governments are expected to respond fairly urgently and in kind to incentives created by competitors' market-friendly innovations.¹⁰² As a result, liberal policies are expected to spread in a specific way: along channels carved out among competitors.

To develop more precise tests of competitive pressures for policy diffusion, it is important to specify as precisely as possible the areas in which key economic constituencies of a government can be expected to be sensitive to the policies of governments in other countries. Exporters should be sensitive to policies that affect input costs, such as wages, and so a policy that reduces wage costs in a competitor country should lead domestic exporters to call for an "equal playing field." Foreign direct investors have to consider a range of transactions costs flowing from the political risks and contractual hazards inherent in operating a firm in a foreign jurisdiction.¹⁰³ Policies that reduce these transactions costs in nations that compete for foreign investments should stimulate similar innovations at home.¹⁰⁴

Liberalization of the capital account is a prominent example: in the long term, investment flows can be encouraged by improvements in infrastructure and labor market quality, but in the short run governments seek strong policy signals that foreign capital is welcome.¹⁰⁵ They are therefore likely to respond in kind to capital market liberalization by their competitors.¹⁰⁶ In

¹⁰² For case studies in the area of finance that examine the political processes by which such policy changes take place, see Encarnation and Mason 1990; Goodman and Pauly 1993. A further example is that of Australia and New Zealand in the 1980s. The two countries had similar economic profiles – profitable raw materials and agricultural sectors supporting protected manufacturing sectors, relatively loose macroeconomic policies, highly regulated economies, and large state-owned sectors. The United Kingdom, long the major export market for primary products, entered the European Community (as it then was) in 1973 and began consuming continental products, just as global mineral markets destabilized. These shocks led Australia to begin to liberalize in the early 1980s; New Zealand soon went further than Australia, with radical central bank reform and large-scale privatization, then Australia responded with a privatization campaign of its own. See Castles, Gerritsen, and Vowles 1996.

¹⁰³ Henisz 2000. ¹⁰⁴ See Elkins, Guzman, and Simmons, this volume.

¹⁰⁵ Economists find that capital and trade flows respond positively to such signals of liberalization. See for example Bartolini and Drazen 1997.

¹⁰⁶ Simmons and Elkins 2004.

Latin America, this dynamic took over after Chile liberalized under Pinochet; other countries began to open their capital accounts as well for fear that capital flows would be diverted to Chile. Foreign direct investment is also sensitive to corporate tax rates, particularly in developing countries,¹⁰⁷ and reductions in competitors' rates could stimulate reductions at home. Governments also compete for international capital by floating their own sovereign bonds, and investors are notoriously concerned about fiscal recklessness that can spur inflation and limit their liquidity. Governments competing for portfolio capital may do so by curtailing government spending and may compete to liberalize the capital account.¹⁰⁸

Models of diffusion that rely on economic competition may be useful in exposing the proximate explanation for policy liberalization – a specific policy move by a competitor. But they are typically silent about the deeper structure of ideas that presumably gives rise to the belief that the best way to respond to liberalization elsewhere is roughly in kind. Competition models imply mechanistic accounts of structural pressures that are tightly coupled with the policy innovations of competitor nations. Competition theorists assume that the pressure from a change in a competitor's policy so clearly indicates the range of plausible responses that whether and how governments learn about liberalization (discussed below) has no independent explanatory power.¹⁰⁹

Competitive models of diffusion do not address deeper constitutive questions: how do governments come to believe in the first place that liberalization will contribute to economic growth and development? And if they believe a competitor's liberalization will attract valuable economic activity, why not liberalize unconditionally? The answer must lie in the disturbance that external competition implies to a locally determined equilibrium level of policy liberalization, explanations for which have traditionally been the bailiwick of "endogenous" theories of protection.¹¹⁰ Competitive models of diffusion are useful only in that they model the external forces that disturb these domestic policy equilibria.

Empirically, competitive interdependence in adoption is straightforward to examine. In the case of policies that affect local production costs, where the competition is between foreign and local producers serving the local market, the relevant competitors may be a country's trade partners. The best measure might be the prevalence of the target

¹⁰⁷ Gastanaga, Nugent, and Pashamova 1998.

¹⁰⁸ Simmons and Elkins 2003, 2004. ¹⁰⁹ This point is made by Levy 1994.

¹¹⁰ For but one example see the endogenous tariff literature: Nelson 1988.

policy among the home country's trade partners, weighted for trade flows. In most cases, however, theory suggests that countries adopt new policies to compete with their peers for market share in, or investment from, a third country or group of countries. In these cases, the policies of trade partners are not most relevant, for the competitive action is in global or third markets.¹¹¹

The specific hypothesis might be that as barriers to trade are lifted in country A, country B will have incentives to reduce barriers because both want access to the market of country C. A good indicator for competition in third markets would be the average of policies taken in countries weighted with respect to the degree of similarity in their export market profiles. Structural equivalence in trade networks would measure the degree to which any given economy represents a competitive pressure.¹¹² Alternatively, the strength of sectoral competition between two countries might be most important. In each case, the solution would be to create a correlation matrix of countries' exports, and weight the policies of those whose profiles are most highly correlated accordingly. As this weighted group of competitors liberalizes, we would expect a country to do the same.

Competition for capital can be measured in an analogous way, but one has to think carefully about how to weight the relevant competitors. For policies that influence foreign direct investment, it might be most appropriate to group countries by their inherent attractiveness to investors. Competitive distance in this case could be a function of the degree of similarity in quality of the workforce (as measured by literacy, etc.) and infrastructure (electricity, communications, transportation). The more similar two countries are on these dimensions, the more competitive for FDI they will be and the greater the weight of country A's policy in predicting country B's.¹¹³ For policies expected to affect non-equity portfolio investment, countries with similar credit ratings might be the most direct competitors.¹¹⁴ For competition to be supported as a diffusion mechanism, policy innovation would have to be shown to be conditioned by the policies of competitors for the resources in play.

¹¹¹ Spatial models measuring the "distance" between two competitors are an especially promising way to proceed empirically. Such spatial models are explained in a recent article by Beck, Gleditsch, and Beardsley 2006.

¹¹² Burt develops applicable models of structural equivalence in markets; Burt 1987. See also Finger and Kreinin 1979.

¹¹³ See for example Elkins, Guzman, and Simmons, this volume.

¹¹⁴ Simmons and Elkins 2003, 2004.

Learning

In the policy literature, “learning” refers to a change in beliefs or a change in the strength of one’s confidence in existing beliefs, resulting either from observation and interpretation or from acquisition of new theories or behavioral repertoires.¹¹⁵ Some researchers distinguish “simple learning,” in which new information leads to changes in means but not ends, from more complex cognitive processes involving new beliefs about ends as well. In the realm of public policy, actors may be learning at both the simple tactical level (how to better achieve a particular goal) and at a deeper level (what goals they should pursue).¹¹⁶ With respect to tactics, governments may always try to stimulate economic growth, but they may become convinced, for example, that export promotion rather than import substitution is the way to go. Or at a deeper level, political liberalization – the extension of the franchise, the guarantee of individual rights – likely involves new thinking about the desirability of these goals.

An essential insight is that one can learn not only directly from one’s own experience, but also vicariously from the policy experiments of others. Policy diffusion takes place via learning when governments in one country draw lessons from the experiences of others, and apply these lessons in designing their own policies. Learning theories of policy diffusion can be applied at various levels of analysis. First, policymakers can alter their individual beliefs in ways that shape policy. In an institutionally thin environment, in which decision makers have the ability to act upon their own beliefs, individual cognitive change may be sufficient to explain policy change – as has often been suggested with respect to crisis decision making in foreign policy.¹¹⁷ Second, more useful for understanding the diffusion of liberal policies among countries, Ernest Haas’ work has drawn attention to the generation of social knowledge, or “the sum of technical information and of theories about that information which commands sufficient consensus at a given time among interested actors to serve as a guide to public policy designed to achieve some social goal.”¹¹⁸ In this approach, policy innovation spreads in the wake of the diffusion of a shared fund of (often technical) knowledge among elites

¹¹⁵ See the very useful review of the learning literature, especially as it has been applied to foreign policy decision making, by Jack Levy 1994.

¹¹⁶ Philip Tetlock, for example, argues that learning can be hierarchical, but that most foreign policy learning takes place at the tactical level: political decision makers reconsider their basic strategic assumptions and orientation only after repeated failures to generate a tactical solution. See Levy 1994: 286.

¹¹⁷ Jervis 1976. ¹¹⁸ Haas 1980: 367–8.

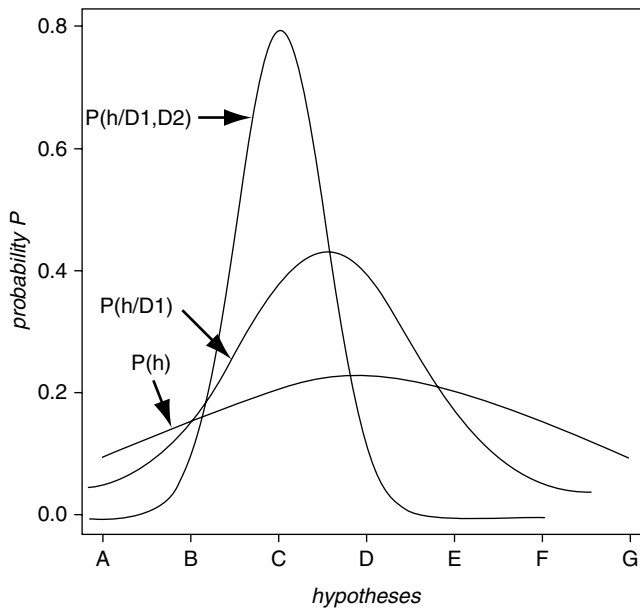


Figure 1.6 Bayesian updating

about what is effective. Of course, organizations themselves do not literally “learn”; only individuals do. As Jack Levy has noted, policy change is often a process of “encoding individually learned inferences from experience into organizational routines.”¹¹⁹

Economists take a more objectivist and individualistic view. They focus on the process of Bayesian updating, in which individuals add new data to prior knowledge and beliefs to revise their behavior accordingly. With each new data point, the range of hypotheses that might explain all accumulated data may shift and narrow. The more consistent the new data, the more likely an actor’s probability estimates of the truth of various hypotheses are to converge on a narrow range of possibilities – and ultimately policies.

Figure 1.6 illustrates the basic Bayesian mechanism. The flattest curve represents an actor’s initial estimate of which of several possible relationships is true. The wide dispersion indicates a good deal of uncertainty, but Hypothesis D is initially viewed as most likely. New data allow for a revision of the probability that D is true. In this case, the first round of new data causes the actor to believe that D and C are equally probable.

¹¹⁹ Levy 1994. Generally, see Levy’s discussion, 1994: 287–9.

Another round of observed data solidifies the belief in the probability of C. Bayesian learning has the effect of shifting both the *mean* and the *dispersion* of beliefs about the true nature of relationships in the world. In Figure 1.6, additional information shifted actors' beliefs in hypothesis D toward hypothesis C. At the same time certainty about this assessment solidified in the face of new information.

It is important to note, however, that nothing in the Bayesian learning mechanism guarantees that actors will converge on "the truth." The process merely describes the way in which new information affects actors' probability assessments. Just as an individual can "learn" a theory in physics that is later disproved, nations can take the wrong lessons from the policy experiences of others or can learn a wrong-headed theory. Exactly what actors learn will be influenced by a number of factors, including the source of new information and how it is processed. Of course relevant data can come from a range of sources, including one's own past experiences¹²⁰ and dyadic interactions.¹²¹ Most relevant to policy diffusion, however, may be the policy experiences of other countries. Governments draw conclusions based on the data generated by policy experiments elsewhere, thus narrowing the range of interpretation regarding the causal relationship between the policy and its hypothesized outcome.

In this way, the probability of liberal policy innovation in a given country can change as the result of "natural experiments" with liberal policies elsewhere. Consider the case of privatization. Prior to Margaret Thatcher's ascent to power in the United Kingdom, state-owned firms were widely accepted in both developed and developing countries. No government had ever engaged in a sustained program of selling off state-owned enterprises.¹²² Britain's privatization drive provided a natural experiment to determine the consequences of denationalization of major public enterprises. The policy seemed to work – firms were sold at handsome profits while the labor problems associated with nationalized industries in Britain declined. Privatizations also generated very useful revenues for the government in its efforts to balance the budget. In the medium run, some British industries did better under private

¹²⁰ In the area of security relationships, for example, Reiter argues that governments are most likely to learn lessons from their own past experiences; Reiter 1996. See also Huth and Russett 1984; Leng 1983; Levite, Jentleson, and Berman 1994.

¹²¹ Scholars of international relations have developed models in which bargaining leads to Bayesian updating regarding the nature of an adversary or its level of resolve. See for example Powell 1988; Wagner 1989.

¹²² The exception to this rule was Pinochet's Chile.

management and some did worse. But there were few glaring disasters (at least until the rise in train fatalities following the privatization of British Rail – but this was at the very end of Britain’s privatization program, not at the beginning).

The result of the British privatization program was that countries “learned” that economists’ arguments about the desirability of private ownership were plausible. Economists quickly jumped on the bandwagon to argue that there were, in fact, very few natural monopolies, and hence most state-owned industries in most countries were inefficient and would benefit from being sold.¹²³ Governments in other countries updated their prior assumptions about the costs and benefits of state ownership. Privatization was now viewed as more attractive.¹²⁴

Bayesian learning is a “rational” process in the sense that individual actors make optimal use of available information.¹²⁵ Some theorists note that policy choices elsewhere may be assumed to reveal private information that can help policymakers to make better-informed decisions. It is important to note, however, that in learning models the choices of others are important not because they affect the *payoffs* of a policy choice (as in the competition dynamic), but rather because others’ choices generate new data that informs *beliefs* about causal relationships.

Sociologists tend to believe that the Bayesian approach is both too naive in terms of actual decision making and too demanding in terms of informational requirements to explain national policy choice. Information does not wash up in undifferentiated waves on the shores of a nation’s decision-making machinery. Rather, sociologists suspect that information is likely to be “channeled,” with some sources being more important than others. In his influential research on the spread of Keynesian ideas, for example, political scientist Peter Hall noted that “The process whereby one policy paradigm comes to replace another is likely to be more sociological than scientific.”¹²⁶ How and why

¹²³ The evidence on the benefits of privatization, however, appears considerably shakier on closer inspection. For a discussion of the literature, see Brune, Garrett, and Kogut 2004.

¹²⁴ The privatization example also provides some evidence for negative learning in developing regions of the world. Success stories of privatization are rare in low-income countries, and the long-term promise of privatization in sectors posing regulatory complications remains to be established, making positive updating far less likely in Africa for example; Ramamurti 1999.

¹²⁵ But the aggregation of these individual choices may not be socially optimal. Economists recognize that sequential social learning can be responsible for “herd behavior,” as evident in successive international financial crises in the 1990s. More generally, models in which actors learn from the decisions of a small number of leaders and suppress their own private information tend to lead to Pareto-inefficient outcomes. See Banerjee 1992; Bikchandani, Hirshleifer, and Welch 1992.

¹²⁶ Hall 1993: 280.

information becomes channeled in particular ways becomes crucial for understanding why particular countries and certain regions seem to have been swept up in liberalizing waves, while others have eschewed the innovations implemented elsewhere.

But policy information may be channeled by the salience of its apparent success. Policies that seem to “work” are much more likely to cause leaders to positively update their prior beliefs about their likelihood of success at home. To wit: although the Japanese “miracle” provided an economic model for Asia and beyond in the 1970s and 1980s, it fell on hard times during Japan’s decade of stagnation in the 1990s. Chile explicitly cited the successes associated with US–Canadian experience with bilateral trade liberalization as an indicator of the possible benefits for Chile of a similar agreement.¹²⁷ Chile itself has often been cited as a relevant “success story” for liberalization in emerging market economies, from Latin America to Asia to Eastern Europe.¹²⁸ Because it is very hard to pin down causal relationships between policy and outcomes, policy-makers may use cognitive shortcuts which channel attention to highly successful countries or to highly successful outcomes – rather than assessing all available information as the Bayesian approach demands.

Channeled learning may be facilitated by communication networks among actors who already are connected in other ways. The exchange of information via existing networks is central to many sociological studies of policy diffusion.¹²⁹ In these models, the cognitive process is dominated by an “availability heuristic,” in which actors unable to retrieve a full sample of information base their decisions on only those instances that are available to them – limiting the viable range of policy alternatives.¹³⁰

Several important studies indicate the importance of learning within communications networks in the policy arena.¹³¹ Virginia Gray’s pioneering work on policy innovation among the states of the United States, for example, demonstrated that the intensity of contact among officials was associated with policy diffusion.¹³² Recent research on how

¹²⁷ When asked what are the benefits and drawbacks of bilateral trade liberalization with the United States, Ricardo Lagos Escobar, President of Chile, answered, “Experience with a trade agreement with Canada indicates the positive effects, such as an increase in trade with Canada of more than 40 percent and an increase in our gross domestic product” *The San Diego Union-Tribune*, January 18, 2004, OPINION; page. G-5.

¹²⁸ Biglaiser 2002; Edwards and Edwards 1992.

¹²⁹ Coleman, Katz, and Menzel 1966; Rogers 1995. See also Axelrod 1997.

¹³⁰ Kahneman, Slovic, and Tversky 1982. Gale and Kariv 2003; Weyland 2005.

¹³¹ The international relations literature has recognized a role for channeled learning outside of the policy realm. For example, with respect to coup contagion see Li and Thompson 1975.

¹³² Gray 1973. See also Lutz 1987.

developing countries formulate and implement policies – ranging from pension reform to exchange rate policies to privatization programs – similarly point to strong social learning from neighbors.¹³³ It is well documented in the international literature that the process of negotiating and maintaining institutional affiliations may create opportunities to learn and persuade.¹³⁴

International institutions are another natural conduit for learning and, especially, for organized pedagogy. Joseph Nye found that international institutions reinforced learning with respect to nuclear policy through their use of rules and standard operating procedures.¹³⁵ Miles Kahler has noted that the international financial institutions shape learning to reinforce their policy preferences.¹³⁶ Indeed, the International Monetary Fund regards its research function as a way to disseminate the lessons of earlier liberalizers (usually developed countries) to the rest of the world (primarily the developing countries).¹³⁷ Rainer Eising attributes the spread of liberalization in the electricity sector in Europe to learning facilitated by the Council of the European Union.¹³⁸

In all of these cases, international organizations, either as agents or as sets of rules that enhance transparency, appear to have had important effects on information flows and policy transmission. Such institutions shape and filter the policy relevant information upon which policymakers draw their conclusions. Nevertheless, the influence on policy may not be obvious and automatic. David Levi-Faur's account of policy liberalization and regulatory reform in Latin America and Europe for example demonstrates that despite much learning, very different institutional environments produce different outcomes.¹³⁹

How might one devise tests for the influence of learning on policy diffusion? There are good reasons to suppose that learning is most likely when we see either *highly successful* or *clearly disastrous* policy changes in country A, followed by similar changes (or heightened resistance to change) in B and C. That is, measurable policy success should predict adoption elsewhere. In the case of privatization, for example, higher rates of investment and economic growth and lower deficits would suggest that the policy worked at the national level. Over time, the ratio of these measures among privatizers relative to non-privatizers should predict future privatization efforts.

¹³³ Brooks 2005; Khamfula 1998; Meseguer 2004. ¹³⁴ Haas 1959. ¹³⁵ Nye 1987.

¹³⁶ Kahler 1994.

¹³⁷ Many examples could be cited, but for an explicit effort to pass on the positive lessons of liberalization see Quirk 1994.

¹³⁸ Eising 2002. ¹³⁹ Levi-Faur 2003.

It may be that learning happens at the global level, and it may be that it happens among groups of peers who share information and whose experiences are more relevant to each other. In the case of privatization, the policy spread first among European countries, then to Australia and New Zealand and only later to the developing world. Different peers might matter in different cases. As a result, one could measure the success of a policy among states in the same region or cultural group, or among states at the same level of development. Like firms that have sunk investments in particular technologies,¹⁴⁰ in the absence of spectacular success, governments may be reluctant to change course if the adjustment cost appears high and the payoff uncertain.¹⁴¹ Thus, one might expect that governments will change only in the face of strong and compelling evidence.

The bottom line on the learning approach to diffusion is clear. Information about success or failure of policy change in other countries is expected to influence the probability of policy change in the country under analysis. The information may be acquired rationally, dispassionately, and completely, as in strict Bayesian models. It might be mediated through existing communication networks. Information might flow more quickly among peer groups of countries whose experiences are deemed most relevant to each other. In all cases, however, evidence of success should be expected to increase the likelihood of adoption elsewhere, while spectacular failure should put the brakes on foreign policy adoptions. As we shall see, this connection to some reasonable measure of "success" becomes more tenuous as we move away from learning and toward diffusion processes based on emulation.¹⁴²

Emulation

Diffusion studies have a venerable history in sociology, where the focus had been on individual, organizational, and social-movement adoption of innovations.¹⁴³ Sociologists have studied public policy diffusion through the lens of "social construction" since the late 1970s.¹⁴⁴ John Meyer's

¹⁴⁰ See for example Atkeson and Kehoe 2001.

¹⁴¹ On the likelihood of incremental change in the absence of a dramatically successful model, see Schneider and Ingram 1988.

¹⁴² Many researchers find that learning and emulation are not necessarily mutually exclusive. See for example Meseguer 2005.

¹⁴³ For reviews see Strang and Meyer 1993; Dobbin 1994; Rogers 1995; Strang and Soule 1998. Classic studies include Coleman *et al.* 1966; Hägerstrand 1967.

¹⁴⁴ The first sustained analysis appeared in Meyer and Hannan 1979. For reviews of the literature, see Dobbin 1994; Strang and Meyer 1993; Strang and Soule 1998.

influential “world polity” approach draws on the Weberian view of an increasingly global culture comprising broad consensus on what is “appropriate”: the set of appropriate social actors (individuals, organizations, and nation-states have replaced clans, city-states, and fiefdoms), appropriate societal goals (economic growth and social justice have replaced territorial conquest and eternal salvation), and means for achieving those goals (tariff reduction and interest rate manipulation have replaced plunder and incantation). It is this logic of appropriateness that diffuses around the globe, first in the West and then elsewhere, to create the world polity.¹⁴⁵ Eleanor Westney pointed out that this process is best described not as imitation but as emulation.¹⁴⁶

This constructivism is distinguished from materialist and individualist theories by its focus on the inter-subjectivity of meaning. Both legitimate ends and appropriate means are shared social constructs.¹⁴⁷ According to this view, we are not born into the world with ready-made understandings of what tariffs on trade, for example, do and mean. Nor do we each derive our own understanding *de novo*. Moreover understandings of cause and effect can vary over time. Tariffs were thought to do very different things in 1880, 1947, and 1995. Constructivism is rooted in Max Weber’s insight that to understand social action we must grasp its meaning to the actors themselves, and that that meaning is an empirically traceable product of social context.¹⁴⁸

The causal imagery of the world polity approach to international policy diffusion is classically sociological. The conventions of nation-states and of organizations are socially generated, much like the conventions of families, social movements, or religions. While policymakers see themselves as collectively trying to divine the “best practice” in each policy area, and see policy as evolving toward more and more effective forms, in fact policymakers are seldom able to judge whether a popular new policy improves upon the status quo. They operate under teleological assumptions about the trajectory of public policy, but policy evolution is messier than these assumptions imply. The effects of particular policies are often complex and uncertain, and so even the most rational of decision makers can rarely find incontrovertible evidence of the efficacy of a prospective policy. Theory and rhetoric often serve as the bases of decision making, and theory and rhetoric change over time.

¹⁴⁵ Boli-Bennett and Meyer 1978; Strang 1991. ¹⁴⁶ Westney 1987.

¹⁴⁷ Berger and Luckmann 1966; Hirschman 1977; Meyer, Boli, Thomas, and Ramirez 1997.

¹⁴⁸ Weber 1978: 4.

Early constructivist studies traced the diffusion of educational and human rights policies from first-world nations to third-world nations, showing that most countries adopted these policies not when they were developmentally ready but when the “fad” became irresistible.¹⁴⁹ Meyer and colleagues showed that between 1950 and 1970 all countries expanded mass schooling, which had been defined as key to achieving both growth and democracy, regardless of political ideology or level of development.¹⁵⁰ Developing countries signed human rights treaties early and often to signal their commitment to global norms, even when Amnesty International was chiding them for rights abuses.¹⁵¹ Any two countries ratifying constitutions in 1980 specified virtually the same set of rights, as did any two countries ratifying in 1850.¹⁵²

In international relations theory, the constructivist paradigm made inroads via the early contributions of Hedley Bull and others of the British School who theorized the role of “international society” in maintaining order in an anarchical international setting.¹⁵³ In the United States, the constructivist paradigm began to make its mark in the late 1980s as political scientist sought to parse the shared beliefs underlying the foreign policies of different countries.¹⁵⁴ By the late 1990s, a spate of studies highlighted how international agencies and governments actively construct theories of action and corresponding models of behavior.¹⁵⁵ Defining the nation-state as the appropriate collective actor had been the first major project of social construction of the modern world.¹⁵⁶ International relations theorists have focused on the creation of shared norms. For instance, Peter Katzenstein’s collection of constructivist studies of national security explores how cultural meaning shaped the reconfiguration of national security theory and practice after the fall of Soviet Communism.¹⁵⁷

The sociological approach has also gained currency not only in analyses of business strategy,¹⁵⁸ but also in comparative politics. Peter Hall argued

¹⁴⁹ Boli-Bennett and Meyer 1978.

¹⁵⁰ Meyer, Ramirez, Rubinson, and Boli-Bennett 1977. See also Meyer, Ramirez, and Soysal 1992.

¹⁵¹ Boli and Thomas 1999; Boyle and Preves 2000; Forsythe 1991; Ramirez and McEneaney 1997. In a recent study, Wade Cole shows that newly established states are more likely to sign international human rights covenants, symbolizing their commitment, but not more likely to sign the optional protocols that ensure enforcement; Cole 2005.

¹⁵² Boli 1987. ¹⁵³ Bull 1977. See also Buzan 1993; Herrell 1993.

¹⁵⁴ Katzenstein 1978. For an interesting discussion of the movement, see Keohane 1988.

¹⁵⁵ Finnemore and Sikkink 2001; Ruggie 1998; Wendt 1999.

¹⁵⁶ Thomas and Meyer 1984; Ruggie 1993; Krasner 1993. ¹⁵⁷ Katzenstein 1996.

¹⁵⁸ Edelman studies organizational rights, whereas Davis, Diekmann, and Tinsley and Dobbin and Dowd explore the social construction of corporate strategy; Davis, Diekmann, and Tinsley 1994; Dobbin and Dowd 2000; Edelman 1992.

that the ideas of John Maynard Keynes led to a new approach to economic management of the economy that ultimately spread widely throughout the world. Peter Gourevitch charted the global policy response to three major economic crises, finding that political coalitions shaped country response but also that during each crisis, the macroeconomic strategy favored by one group of economists came to dominate. Frank Dobbin showed that a new macroeconomic orthodoxy spread following the Great Depression, but that national industrial policy strategies resisted change. In these studies, professional economists were the main purveyors of new macroeconomic conventions.¹⁵⁹

For constructivists, understanding how public policies become socially accepted is the key to understanding why they diffuse. Social acceptance of a policy approach can happen in at least four ways: (1) leading countries serve as exemplars ("follow-the-leader"); (2) expert groups theorize the effects of a new policy, and thereby give policymakers rationales for adopting it; (3) specialists make contingent arguments about a policy's appropriateness, defining it as right under certain circumstances; and (4) policies go through different stages of institutionalization, typically spreading beyond the countries for which they were invented in a second phase of diffusion.

In marked contrast with the coercion approach to diffusion, constructivists emphasize the voluntary adoption of new policies, embraced by policymakers seeking to do their best. Leading nations and IFIs may play roles, but followers are typically willing. As compared to learning theorists, constructivists describe policymakers as seeking to learn from the experiences of others but as rarely able to establish the efficacy of a given policy. Policymakers are constrained by bounded rationality, meaning that they are unable to envision the full range of policy alternatives and unable to assess the costs and benefits of each.¹⁶⁰ In consequence it is often the rhetorical power of a new policy approach, rather than hard evidence that the policy has reduced deficits, or increased female enrollments, that matters.

First, policymakers often play "follow the leader."¹⁶¹ When the US is on top, others translate its happenstance policy shifts into demonstration projects. America's securities laws, antitrust regulations, and central bank structure are copied in Indonesia, Namibia, and Uruguay. Uruguay's innovative banking laws don't spread in the other direction, not because there is anything wrong with them but because it is hard to tell a story about their efficacy so long as Uruguay is struggling to pave its roads.

¹⁵⁹ Hall 1989; Gourevitch 1986; Dobbin 1993. ¹⁶⁰ March and Simon 1993.

¹⁶¹ Haveman 1993a, 1993b.

Because causal processes are difficult to isolate empirically, followers may copy almost anything. For a time in the 1980s, American firms copied Japan's quality circles, but also her factory jumpsuits. They may copy policies almost ritualistically, as when twenty American states copied California's fair trade policy so nearly verbatim that half copied two serious typographical errors.¹⁶² Conversely, there are models that fail to catch on despite their apparent efficacy. While they have been lauded as promoting development, East Asian trade policies have not caught on, perhaps because they do not jibe with current economic thinking.¹⁶³

Constructivists expect that policymakers will emulate the policies of leaders even in the absence of evidence of the efficacy of those policies.¹⁶⁴ To give rational learning theory its due, we assume that when followers embrace a policy in the presence of plausible evidence of its efficacy – when a policy has performed as advertised in early adopters – learning has occurred. Where they adopt absent such evidence, we assume that construction has taken place. What makes a country a “leading” country? Britain had been the model for economic policies late in the nineteenth century, followed by the US for much of the twentieth century, but France made a showing after strong postwar growth, and Germany and Japan were emulated in the 1980s, before the US became the economy to follow again in the 1990s.¹⁶⁵ One way to operationalize the theory is simply by the presence of the target policy in the leader *du jour*. Another strategy, employed by organizational sociologists, is to measure the proportion of the largest, richest, or fastest-growing units – in this case nation-states – with the policy in place.¹⁶⁶

Second, “expert theorization” happens when policy professionals, academics, intergovernmental organizations (INGOs), and non-governmental organizations (NGOs) theorize a new policy solution.¹⁶⁷ Such “epistemic communities” help to define new solutions to existing problems, and new paradigms for thinking about problems and solutions.¹⁶⁸ A policy may spread even without a particular exemplar, although experts frequently

¹⁶² Jack Walker documents this, working with a database showing interstate copying of leaders to be common. See Walker 1969.

¹⁶³ Gruen 1999. ¹⁶⁴ See the discussion in Strang and Macy 2001.

¹⁶⁵ See Shonfield 1965 on France, Johnson 1982 on Japan, and McNamara 1998 on Germany.

¹⁶⁶ Haveman 1993.

¹⁶⁷ Strang and Meyer 1993 contend that the first step is the theorization of similarities across countries, of salient identity dimensions that make up groups of countries. Enrione, Mazza, and Zerboni show that new corporate governance regimes are spread by international actors, but also by local experts who help to theorize their importance; Enrione, Mazza, and Zerboni 2006.

¹⁶⁸ Haas 1989 was one of the early scholars to link epistemic communities to policymaking.

riff on the experience of a leader. After the US adopted antitrust laws to protect consumers from price-fixing in 1890, economists retheorized the policy as a way to promote competitive markets and other countries adopted it in the hope of replicating America's growth.¹⁶⁹ DiMaggio and Powell¹⁷⁰ call this "normative isomorphism," for experts advocate new policy norms that lead to isomorphism.

Students of organizational policy find that it is usually specific groups of professionals – finance or personnel experts – who sell particular policies. Students of human rights policies have generally identified NGOs or INGOs as defining policy norms.¹⁷¹ Empirically, national membership in, or presence of, an NGO or INGO that supports a certain policy should increase the likelihood of adopting that policy. Ramirez, Soysal, and Shanahan¹⁷² found that the extension of suffrage to women hinged before 1930 on the number of national organizations promoting suffrage, and after 1930 on a nation's participation in a pro-suffrage international alliance.

The finding that policies thought to come with development, such as welfare programs and environmental protections, spread to nation-states at *all* levels of development suggests that NGOs have succeeded in defining global, non-contingent, norms about how nation-states should behave. But research shows that countries that support new rights but lack the resources to provide them may decouple formal policy from practice.¹⁷³ Strang and Chang find that ratification of International Labor Organization treaties guaranteeing welfare rights leads to increases in welfare expenditures in developed countries, but not in developing countries. This may not represent bad faith so much as the power of new international norms even in countries that are not developmentally ready to implement them.¹⁷⁴ To give coercion theory its due, in the analyses in this volume participation in World Bank and IMF programs are typically taken to measure coercion, but participation in human rights INGOs and NGOs (which do not hold purse strings) are more typically taken to indicate social construction.

While professionals and experts have generally been found to be the agents of diffusion in organizational studies, studies of public policy diffusion often neglect the role of agency. What kinds of individuals and

¹⁶⁹ Wilson 1980. ¹⁷⁰ DiMaggio and Powell 1983; Edelman 1992; Fligstein 1990.

¹⁷¹ Berkovitch 1999; Berkovitch and Bradley 1999; Boli and Thomas 1997; McNeely 1995; True and Mintrom 2001.

¹⁷² Frank, Hironaka, and Schofer 2000; Ramirez, Soysal, and Shanahan 1997.

¹⁷³ The idea that policy be decoupled from day-to-day activities is sketched in the organizational literature, in Weick 1976, and Meyer and Rowan 1977.

¹⁷⁴ Strang and Chang 1993.

groups matter? A study of the spread of professional licensing for thirty different occupational groups found that the groups themselves promoted adoption among the American states.¹⁷⁵ Studies in this volume address agency. In the chapter by Kogut and Macpherson, privatization is argued to have flourished where its main professional proponents, US-trained economists, were dominant. More generally, if we see an effect of local Chicago-trained economists on economic policies, net of all else, we would be inclined to chalk one up for “expert theorization.” But sometimes it can be difficult to distinguish expert theorization from coercion, for the tail can wag the dog – as we noted, governments may participate in World Bank programs so that they can justify fiscal austerity programs (championed by economists) to their constituents. Kogut and Macpherson rule this out in their empirical analysis.

Third, policymakers and expert groups often construct certain policies as appropriate for countries with given characteristics – we term this the contingency hypothesis. Thus, for instance, the five-year industrial plan was embraced outside of the Communist world by countries ideologically oriented to government leadership in industry, such as France and Korea.¹⁷⁶ Women’s rights conventions have a global character, but Islamic countries developed a distinct version.¹⁷⁷ Empirically, constructivists suggest that when a country fits the prescription, it will follow others that fit the prescription. When trade liberalization was prescribed for developed countries but not for middle-range countries that were trying to substitute local production for imports,¹⁷⁸ constructivists would expect to see developed countries behaving like their peers and developing countries behaving like *their* peers. The strongest test of the contingency hypothesis combines qualitative evidence of expert theorization of the particular contingency with quantitative evidence that countries sharing the relevant characteristics have adopted.

A weaker version of the contingency hypothesis comes from reference group theory in social psychology, which suggests that individuals emulate the behavior of peers because they surmise that the policies of peers will “work” for them as well. Socio-cultural linkages may contribute to “psychological proximity”¹⁷⁹ among nations: for example, Britain looks to North America¹⁸⁰ for policy solutions, whereas Syria looks to Saudi Arabia.¹⁸¹ The reference group hypothesis is based on the idea that policymakers engage in a kind of inductive reasoning based on

¹⁷⁵ Zhou 1993. ¹⁷⁶ Cohen 1977. ¹⁷⁷ Berkovitch and Bradley 1999.

¹⁷⁸ O’Donnell 1973. ¹⁷⁹ Rose 1993.

¹⁸⁰ Examples include Waltman 1980, and Lester and Bindman 1972: Ch. 3.

¹⁸¹ Stone 1999.

observation. It is also possible that reference groups produce the kinds of weak-tie networks that Mark Granovetter has shown to be conduits of information.¹⁸²

In organizational studies, firms learn of new practices even through weak ties to other firms; the poison pill strategy spread through corporate board networks and became ubiquitous in no time.¹⁸³ In research on policy diffusion, “region” often stands in for reference group, or for contagion by proximity. For instance, Ramirez, Soysal, and Shanahan find that women’s suffrage spread regionally – between 1930 and 1990, the prevalence of suffrage rights in regional neighbors influenced hold-outs.¹⁸⁴ The contributors to this volume have striven to specify what it is about regional proximity that causes bandwagoning. For instance, among nearby countries, is it physical proximity and information flows, trade flows as a source of commercial contact, or heightened contact among religious groups that predicts the influence of one country on another?¹⁸⁵ This can be tested by looking at whether a country’s likelihood of adopting an innovation is best predicted by its prevalence among neighbors, trade partners, or religious community members.

Countries also look to structural equivalents to evaluate policy options. Ronald Burt has shown, in a reanalysis of data from the classical study of the spread of tetracycline among physicians in the mid-1950s, that physicians defined themselves as like others on the basis of shared structural positions.¹⁸⁶ They followed others who were structurally similar, rather than those they had direct contact with (the contagion hypothesis). The most detailed international measure is trade equivalence, but trade equivalence may capture competition. For policy choices that may be driven by competition, i.e. capital account openness, we assume that when structural equivalence predicts adoption we are observing competition at work. Otherwise, when structural equivalence predicts adoption we would look for qualitative evidence that countries draw inductive conclusions based on the policies of their equivalents.

Fourth, a policy that experts or NGOs initially prescribe for a certain group of countries often becomes generally accepted practice, through a sort of sequential combination of “expert theorization” and “follow-the-leader.” Policies adopted to address a particular problem thus spread to countries without the problem as part of standard operating procedure.

¹⁸² Granovetter 1995. ¹⁸³ Davis 1991. ¹⁸⁴ Ramirez, Soysal, and Shanahan 1997.

¹⁸⁵ For example, Simmons and Elkins 2004 present evidence that cultural peers – indicated by common religious orientation – are significant in explaining external financial and monetary liberalization.

¹⁸⁶ Burt 1987.

The studies of mass schooling mentioned above show this pattern, for after the Second World War what was defined as a necessary component of industrialization by European nation-states needing skilled workers came to be a necessary component of nation-building for third-world nations.¹⁸⁷ This is known as the “stages-of-institutionalization” thesis following Tolbert and Zucker’s finding that civil service reforms spread first to the big cities they were prescribed for and then became standard operating procedure, spreading to towns too small to make use of them.¹⁸⁸ Once a new policy reaches a certain threshold, policymakers take it for granted as necessary. Empirically, countries that should not adopt a policy following a stages-of-industrialization logic, adopt it anyway. As in the case of policies with positive network externalities, the prevalence of a policy predicts its adoption. But the stages-of-institutionalization process can be recognized in two ways. On the one hand, it suggests that policies will first diffuse to countries for which they are prescribed and will only later diffuse elsewhere. On the other hand, for policies that carry no clear network externalities – women’s rights – qualitative evidence may help us to confirm that social construction is at work.

An important component of our research agenda is to distinguish rational learning from emulation through social construction. Where policymakers have knowledge of the efficacy of a new policy, rational learning may be taking place. Some contagion studies have isolated the processes. Holden shows that airline hijackings stimulate new hijackings, but that successful hijackings (where a ransom is paid) are more likely to be copied. Conell and Cohn find that French coal-mining strikes ignite other strikes, but that successful strikes were more likely to ignite others.¹⁸⁹ These studies suggest that when they have hard evidence that a strategy works, people are more likely to copy it. Both studies also find that people emulate strategies even in the absence of evidence.

The researchers whose work is collected in this volume look for an effect of social construction and emulation – net of the effect of learning, and of competition as well. Constructivist studies of human rights typically suggest that learning and competition are not plausible diffusion mechanisms, but studies of economic liberalization present the opportunity to isolate social construction from learning and competition, and that is one of the advances of this volume.

Sociology’s constructivist studies of international diffusion via social emulation have been rightfully criticized for operating at a high level of

¹⁸⁷ Meyer *et al.* 1977; Ramirez and Boli 1987; Meyer, Ramirez, and Soysal 1992.

¹⁸⁸ Tolbert and Zucker 1983. ¹⁸⁹ Holden 1986; Conell and Cohn 1995.

abstraction, both theoretically and empirically. Theoretically, practitioners describe a sweeping global trend rather than focusing on the variable regional and national environments it faces. Empirically, they use quantitative analysis to model the global diffusion of policies across over 100 countries, but often fail to document the local processes involved in policy diffusion.¹⁹⁰

World polity theorists describe a fundamentally sociological process underlying the diffusion of national policies that mirrors the processes underlying the diffusion of organizational practices and individual behaviors. Policymakers in the modern world operate under norms of political justice and economic rationality, but they derive ideas about how to bring about justice and economic growth from the world around them. Given changing definitions of human rights and of economic efficiency, and given uncertainty about whether policies designed to increase educational levels of women or expand high technology exports will have the intended effects, policymakers copy the policies they see experts promoting and leading countries embracing. Policy decisions are only loosely based on competition or learning, strictly defined, although policymakers may describe their behavior as competitive and evidence-based.

Varieties of liberalism: contributions to this volume

The chapters in this book explore these four diffusion mechanisms with respect to three distinct clusters of economic and political liberalization. Three chapters examine the liberalization of domestic economic policies – reductions in corporate tax rates, government workforce downsizing, and privatization. Two chapters study the liberalization of foreign economic policies – bilateral investment treaties (BITs) and capital account openness. Finally, two chapters focus on political liberalization; democratization and the ratification of women's rights treaties. In the conclusion we consider the implications of all these articles for the relative explanatory power of coercion, competition, learning, and emulation as mechanisms of the international diffusion of liberalism. Here we provide a brief policy-by-policy preview.

Domestic economic liberalization

Why have governments increasingly implemented domestic policies that seem to favor marketization over governmental intervention? Duane

¹⁹⁰ Finnemore 1996. Some very good case studies do explore international diffusion processes at the local level. See for example Jacoby 2000.

Swank examines the diffusion of new “market-conforming” corporate tax structures in the OECD following the adoption of a new tax regime in the United States in 1986.¹⁹¹ Swank argues that competition was the major driver of diffusion because the US tax changes were most closely followed in other developed economies with similar political economic structures to those in America – that is, the institutions of liberal (uncoordinated) market institutions. According to Swank, competition with the US for investment was the driving force of policy change among these countries, but not among the coordinated market economies of northern Europe. These countries came to adopt reforms similar to those enacted by Reagan because the US is the dominant host and supplier of capital investment throughout the developed world. The market for FDI in coordinated market economies, in contrast, operates more independently from the US and is driven by other considerations.

Bruce Kogut and Muir Macpherson argue that patterns of privatization around the world have been significantly influenced by the impact of the new economic orthodoxy associated with the University of Chicago. While coercion (through IMF conditionality) and competition (for FDI and trade) matter at the margins, they find no learning effects. Rather, they argue for the social construction of the idea of privatization. When the idea appeared in the United States there was much debate, with some arguing that it was nonsense. Even as it spread abroad, there was debate in the countries that embraced privatization. The construction of this solution within nations depended on its proponents winning, and often tailoring privatization to local conditions.¹⁹² Yet for Kogut and Macpherson, American economists have been the principal purveyors of the neoliberal model of economic policymaking. This may have affected the diffusion of privatization in two ways. Governments that favored privatization (and other neo-liberal economic policies) may have been more likely to send young economists to the US, and to Chicago in particular, for further training. Alternatively, individuals who went to Chicago, for whatever reason, may have brought back home pro-privatization convictions. Either way, Kogut and Macpherson have shown how the process of the construction of a new orthodoxy came about.

Chang Kil Lee and David Strang examine public-sector downsizing in the 1980s and 1990s in the OECD.¹⁹³ As in the case of “market

¹⁹¹ Original version published in *International Organization*; see Swank 2006.

¹⁹² See also Starr 1989 on the diversity of how privatization was implemented within nations.

¹⁹³ Original version published in *International Organization*; see Lee and Strang 2006.

conforming” tax policies, there is no evidence of coercion. But unlike Swank, Lee and Strang do not believe that competition was the main driver of reductions in public sector employment. Instead, they focus on an interesting learning process. In the context of the dominance of neoliberal thinking about the efficacy of downsizing, countries took strong signals from evidence that downsizing worked to improve economic performance but heavily discounted evidence showing that bigger public sectors were good for growth (by providing collective goods such as education and infrastructure under-supplied by markets). Lee and Chang thus propose a hybrid emulation and learning dynamic in which an influential epistemic community defined downsizing as a solution to the problem of poor economic performance, which in turn catalyzed only one type of learning – countries ignored evidence that was inconsistent with the new received wisdom but acted upon evidence that was consistent with it.

Foreign economic liberalization

The second cluster of articles focuses on policies that open up the national economy to the rest of the world, and particularly to international capital markets and investment. Zachary Elkins, Andrew Guzman, and Beth Simmons explore the diffusion of bilateral investment treaties that seek to improve foreign investors’ legal redress in countries where local regulatory and legal practices may appear to put foreign investment at risk.¹⁹⁴ The article finds considerable evidence for diffusion through competition. Developing countries are much more likely to sign a bilateral investment treaty (usually with a developed country) when their prime competitors for trade and investment have done so. Other mechanisms may also be at play. Coercion is not ruled out: countries that draw on the resources of the IMF tend to be much more likely to sign a BIT, which may reflect a degree of pressure to do so. Elkins, Guzman, and Simmons also find no evidence of learning from others’ success in attracting capital through committing to BITs, but no evidence of emulation through region, common language, or colonial history. This chapter demonstrates that in this case, it is very likely that two rational mechanisms – competition and learning – mutually reinforce one another and go a long way to explain the explosion of bilateral investment treaties in the mid-1990s.

Dennis Quinn and Maria Toyoda examine the history of capital account openness around the world in the last half of the twentieth

¹⁹⁴ Original version published in *International Organization*; see Elkins, Guzman, and Simmons 2006.

century. Their principal finding is that global anti-capitalist sentiments (as measured by vote shares for Communist parties in stable democracies) had a strong and significant negative effect on capital account openness in all countries, including non-democracies and democracies without Communist parties. This can be understood as a form of emulation, though a very different form from that identified by Meyer's world polity approach. Though they find some evidence for learning and competition, the main thrust of Quinn and Toyoda's article is that a strong, grassroots anti-capitalist movement led developing countries to balk at paying the price of capital account openness for several decades, before global sentiment against markets declined precipitously from the mid 1980s forward. Those countries bucked the first-world trend.

Political liberalization

Finally, we turn to two articles that deal with two very different forms of political liberalization. Kristian Gleditsch and Michael Ward examine the diffusion of democracy, and begin with the observation that the process of democratization has been geographically clustered. Given that most of the domestic correlates of democracy (levels of income, education, etc.) tend to change slowly, there is a strong *prima facie* case to be made that democracy spreads by some sort of regional diffusion. What is the nature of the diffusion? Gleditsch and Ward contend that coercion is the most important driver of this dynamic, though in a way that is quite different from the core-periphery archetype.¹⁹⁵ In the case of democratization, powerful pro-democracy groups in neighboring countries apparently represent a very effective power resource for would-be democratizers. Conversely, civil conflict in neighboring countries reduces the capacity of democratizers elsewhere in the region. Power operates here, but it is localized power resources available to pro- and anti-democracy groups within nations that matter.

Christine Min Wotipka and Francisco Ramirez also find evidence of the diffusion of human rights, specifically the rights of women. They examine a rather more symbolic form of liberalization, ratification of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). They find that countries emulate others when they are part of a global political order promoted by non-governmental and inter-governmental agencies and groups of professionals seeking to define an expanding set of inalienable human rights

¹⁹⁵ Original version published in *International Organization*; see Gleditsch and Ward 2006.

and seeking to ensure that countries at all levels of development guarantee those rights. The United Nations drafted CEDAW, and each of three UN-sponsored conferences on the status of women stimulated a round of new ratifications, even in developing countries with poor human rights track records. The more countries around the world, and the more in the region, that had ratified, the more likely ego was to ratify. Network connections with international rights organizations increased the likelihood of ratification. By contrast, level of development was a poor predictor – underdeveloped countries were *more* likely to ratify – and conditionality appeared to play no role – countries dependent on foreign aid were no more likely to ratify.

Conclusion

Liberalization of both polities and markets has been one of the most significant developments of the second half of the twentieth century. The wave-like nature of these developments provide important clues that liberalization across countries might very well be part of broader processes of interdependent decision making. It would be surprising indeed if unique features of each domestic polity could explain the tripling of democratic governments over this time, the nearly universal adoption of women's rights treaties, the exponential explosion of treaties to liberalize and protect foreign investments, the wave of privatizations, the apparent spreading preference among elites for smaller government, and the liberalization of capital markets that have characterized the past few decades. Far from assuming that these developments are in any way inevitable or reversible, these trends demand explanation. Theories of diffusion are a natural tool to think systematically about the mechanisms that may underlie the waves of individual policy choices that collectively contribute to the globalization of the second half of the century.

The spread of economic and political liberalism is far from the first global wave of policy and political change. The signing of the Treaty of Westphalia in 1648 heralded the spread of the territorially bounded nation-state.¹⁹⁶ Participatory democracy became increasingly prevalent in the nineteenth century following the earlier French and American revolutions.¹⁹⁷ Mercantilism, orthodox macroeconomic policies, and Keynesianism all enjoyed extended periods in the sun as global models for economic policy.¹⁹⁸ What is more distinctive about the late twentieth

¹⁹⁶ Krasner 1993; Thomas and Meyer 1984. ¹⁹⁷ Boli 1987. ¹⁹⁸ Gourevitch 1986.

century wave of liberalization has been its rapidity, its wide geographic reach, and its conjoining of political and economic reform – as we saw in broad relief at the outset of this chapter.

Liberalization is a complex process that could be analyzed in terms of the underlying conditions as well as the proximate causes that seem to ignite its spread. This volume focuses primarily on the latter, but we recognize the important role of the former. The spread of liberalism in the latter part of the twentieth century was no doubt in part the product of a long build-up of historical forces such as the “American Century” of economic expansion, the victory of the Allies in the Second World War, and the failure of Communist states to realize their promise of political inclusion. Later, the waning of the German and Japanese interventionist economic models, the unraveling of Communism as an alternative to liberal democracy, and unprecedented growth during the 1990s in the paradigmatic liberal state, the United States, all played powerful triggering roles. These conditions alone, however, cannot explain why particular policies that often look remarkably similar across countries cluster in time and space. It is clear that countries often end up with policies that look very much like those in other countries, but it is not clear why.

Three social sciences disciplines – economics, political science, and sociology – have devoted much attention to this question, but they have done so in very different ways that tend to look inward rather than to reach out to engage insights from other perspectives. One consequence of the isolation of different camps is that analysts have rarely spelled out the broad theoretical assumptions underlying their arguments; they have generally only addressed internecine disputes among like-minded scholars who share a core set of assumptions. Conversely, when scholars from different disciplines reach the same conclusions they tend to be unaware of this cross-disciplinary consensus. As a result, the wheel has been reinvented more than once. Moreover, when it comes to empirical tests, analysts have often failed adequately to test competing hypotheses.

The goal of this volume is to remedy each of these weaknesses. The four clusters of theories we have reviewed in this introduction imply different processes behind the diffusion of liberal policies.

Coercion theorists depict a world in which the actions of a few powerful players – through carrots and sticks, go-it-alone power, or as focal points – have a disproportionate influence on the behavior of other countries. The United States and the International Monetary Fund and the World Bank promote liberal economic reforms either because they further American interests or simply because Americans believe them to be efficient, depending on whom you listen to. The clear implication is that countries

adopt policies that may or may not be effective for them, or in their own interest.¹⁹⁹

Competition theorists describe a very different mechanism, whereby a policy that gives one country a competitive edge leads others to follow suit, even if those countries would have preferred, *ex ante* and in a world of independence rather than interdependence, not to adopt them. Brazilian policymakers may favor high import tariffs that shield domestic industries, but competition for export markets and foreign capital with Argentina, Chile, and Mexico may lead them to lower tariffs. Following this logic, the preferences of global business for free trade and low tax rates trump the preferences of domestic groups for protection and redistribution. Power thus plays a role in these models as well, but it is the power of the market as a decentralized economic force, rather than national power as conventionally understood.

Rational learning theory implies a kind of cost-benefit analysis, but one with very different foundations than the competition approach. The roots of the theory are psychological, and the driving question is how individuals and policymaking groups draw lessons from the experiences of other countries. They may draw lessons by observing the effects of policies other countries adopt, and they may engage in Bayesian updating, in which they constantly add new bits of evidence to the existing knowledge base. Policymakers can draw the wrong lessons from observation, but the overarching theme here is that countries have “learned” to pursue liberal policies because those policies are most effective. Like competition theorists but unlike coercion theorists and constructivists, learning theorists tend to attribute the success of liberalism to its efficacy in promoting growth and political stability.

Constructivists depict yet another causal imagery based on social emulation. They see the diffusion of liberal policies as a matter of ideology, broadly understood. A global polity has emerged over the past several hundred years, under which there has been a shifting consensus about the optimal means to achieving economic growth and political stability. Experts and international organizations promote formal theories to account for the success of certain policies, and in the end it is the rhetorical power of these policies and theories that carries them around the world. Moreover, countries that see themselves as members of some sub-global groupings, based on history, culture, language, and geography, may come to select similar sets of policies more or less as a result of their belonging to these self-identified communities of nations.

¹⁹⁹ See for example Henisz, Zelner, and Guillen 2005.

While the four approaches to international diffusion have some common intuitions about process, they nonetheless focus on different core propositions.²⁰⁰ They also have different implications for the future course of global liberalization. It is not the case that each and every theory is applicable to each and every policy domain. But many theories have not been tested even in venues for which they are appropriate. What is most exciting about this cornucopia of theories is that while they do point to some overlapping predictions, they also point to a number of quite distinct causal mechanisms that can be differentiated in empirical tests. The promise of diffusion analyses that take the plausible alternative mechanisms into account is that they can begin to sort out which of the various mechanisms have played roles in the diffusion of which liberal policies. Knowing which mechanisms are most likely at work will help us to refine our theories, and also to better understand where policy may move in the future. The remainder of this volume is devoted to this crucial empirical agenda.

The pattern of findings across the studies presented here is striking, and it suggests the promise of integrative theoretical approaches as well as important new avenues of study.

Taken together, these studies suggest that simple coercion is seldom the main process underlying policy diffusion. There is little evidence, among developed or underdeveloped countries, that the IMF or World Bank, the American government or the European Union, has significantly influenced policies by threatening governments. The studies do show significant effects of competition and learning from first movers, however. In the realm of foreign trade, countries sign bilateral trade agreements when their direct competitors have done so. In domestic policy, countries learn from the successful public-sector downsizings of their peers. It is perhaps not surprising that competition drives nations' behavior in trade, and that learning drives their behavior in domestic policy.

What is more surprising is that learning is conditioned by belief patterns. While there is evidence that countries learn from successful public-sector downsizings that are consistent with current economic beliefs, countries ignore evidence that conflicts with those beliefs. And so the prevailing wisdom shapes the kinds of learning that can occur. Similarly, purveyors of the prevailing neoliberal wisdom about the privatization of public enterprises shape the adoption of privatization programs. In economic policy, it appears, what is fashionable in economic theory plays a

²⁰⁰ For a recent argument that these (and possibly other) diffusion mechanisms can in fact all be subsumed within a single theoretical framework, see Braun and Gilardi 2006.

big role in what is implemented. This suggests that straightforward learning models, in which policymakers assess the cold, hard evidence and base policy decisions on it, may not depict the process accurately. When countries view the policy experiments through rose colored lenses, they are more likely to replicate those experiments. When countries have vocal proponents for fashionable new policies around, they are more likely to follow them.

When it comes to the diffusion of new political norms, these studies show that resources can be as important as global political norms. Women's rights spread to countries that have formal connections to international organizations, suggesting that concrete connections matter. Democracy spreads through sets of neighboring countries, evidently because neighbors provide concrete resources for building democratization movements.

What these studies have shown, above all, is that the compartmentalization of different theories focusing on different issue areas has impoverished both theory and research. We see evidence that power resources influence the diffusion of democracy. We see evidence that ideological trends shape the spread of capital account liberalization. We see evidence that academic movements shape the diffusion of government downsizing and privatization. Scholars from each of these issue areas have much to learn from the work of others. In the future, researchers in each camp should take insights from other camps to heart, and build them into research programs.

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